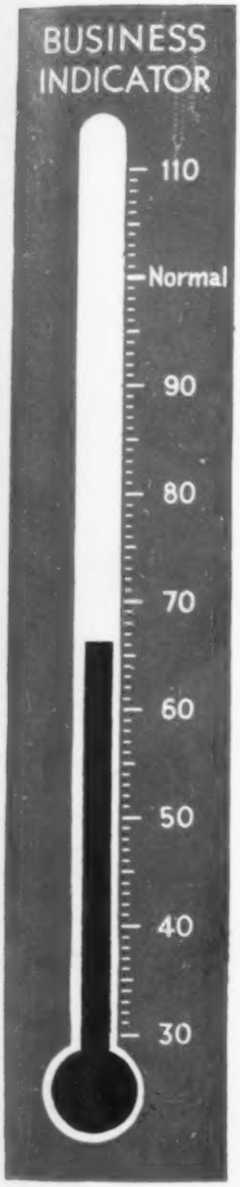
THE BUSINESS WEEK

DEC 9, 1931



It involves no serious strain on one's optimism to see in the current statistical straws some signs of stabilization in the level of domestic business activity and some promise of improvement in the next ninety days . . . . The October bulge in commodity and stock prices as well as in some business indicators was in larger part wiped out during November, but on the whole there has been no serious set-back, and some net gain . . . . Stock averages have been bashful about breaking through the bear market lows; commodities still oscillate reassuringly around the levels that have been held for nearly six months . . . . Steel activity and carloadings have succumbed very slowly to the usual seasonal slackening, and some stimulus to steel is still to be expected from year-end new-model automotive demand . . . . The heart-breaking bond market is the outstanding and disturbing exception to this promising picture; and the accompanying banking strain and slackness in new capital issues must be overcome before we can count on a clear track for recovery . . . . The imminent bankruptcy of Germany explained at length in this issue, and the threatened breakdown of our own railroad structure unless prompt relief is supplied, are now the most or only formidable obstacles to stabilization of the securities markets and fundamental betterment in the outlook for business in this country . . . . It is reasonable to expect that something constructive will soon be forthcoming toward the recuperation of railroad credit, and while it is impossible to be so hopeful about European affairs, American business opinion is slowly reconciling itself to the fact that it must turn its attention to domestic possibilities of expansion.

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What's In This Issue —And Why

Poor Debtor's Curse

GERMANY'S creditors are meeting partly to decide how much blood can be squeezed from a stone, more particularly to fight out the question of which set of creditors shall be paid; Germany's people are beginning to crack under the pressure; February perhaps, May at the latest, will see Hitler in control, Germany bargaining a revolution against a new financial order. *(page 5)*

Finance

BUSINESS is a machine out of control, now racing with prosperity, now idling or laid up for repairs because of the strain. Bankers propose a governor to make it run more evenly. *(page 7)*

BANKING has reached the end of the line in conservatism with the establishment in Florida of a bank making no loans, paying no interest, functioning mainly as a safe-deposit box with checking facilities. *(page 7)*

Success Secret

CASE studies, by the Department of Commerce, of 358 varied companies which showed a profit in this of all years, reveal what good advertising can do for a good product. *(page 9)*

Collars

CLUETT, PEABODY has kept neck and neck with the times, shifting sales from hard collars to soft shirts. *(page 10)*

Automobiles

MORE new motors make their appearance; the trend to leaner, cleaner lines, led by the custom models, becomes more obvious. *(page 13)*

Gas Tax

EASILY collected as a road tax, diversion to other uses leads to increases and evasion. Anything over 3¢ a gallon means profit to the gasoline bootlegger and loss to the state. Right now, bootleggers are getting more than legislators divert. *(page 14)*

Railroads

THOSE little ancestors of the big roads, the short lines, are in real need of the relief promised by the pool, but afraid they might get the short end of it. *(page 17)*

COMPETING roads are cooperating in a joint advertising campaign to sell travel over the Christmas holidays. which may encourage Eastern and Western systems to couple up for the summer trade. *(page 18)*

CANADA'S Concilation Board recommends a 10% cut in rail wages, which weakens opposition here, to some extent, because the same unions serve both countries. *(page 18)*

Farm Board

OUR expensive experiment in agricultural stabilization, what it cost, what it's worth; Chairman Stone's defense. *(page 24)*

Cotton

THERE'LL probably be a sizeable reduction in the cotton crop next year, not through any patriotic reluctance of the farmers to plant it, but because of the unwillingness (and inability) of the bankers to pay for it. *(page 26)*

End of Era

THE federal government's "new conception" of land would stop wasteful pioneering, require something in the way of a "certificate of convenience and necessity" before public or private lands could be opened up for homesteading or development. *(page 29)*

Newsprint

CANADIAN bankers believe that the paper industry needs a merger, but the many obstacles keep it still in the rumor stage. *(page 30)*

Tariff Maker

MR. O'BRIEN, our new Tariff Commission chairman, believes in the tariff, may even like working out the schedules. *(page 31)*

THE BUSINESS WEEK

The Journal of Business News and Interpretation

News of the week ending December 5, 1931

Germany's Creditors Must Settle Own Split or Face Worse Crisis

Berlin, foreseeing no real solution, expects Hitler government perhaps in February, surely by May

EUROPEAN NEWS BUREAU (*Cable*)—No problem in Europe—not even Britain's tariffs—transcends in public interest this week the crisis in German finance. Verging on bankruptcy for a year, bolstered by bold and spectacular "remedies" beginning with the Hoover moratorium, Berlin has finally appealed to the world for a fresh accounting. International bankers are already bound for Basle and Berlin. "Some time around Dec. 10" they will settle down to a study of Germany's national accounts.

There will be 2 groups. The so-called political debts—reparations—are the immediate interest of the French; but all countries receiving reparations from Germany are interested in whatever plan may be worked out to replace the Hoover moratorium. The experts committee, convoked under the Young Plan, is expected to meet at Basle.

To Study German Capacity

It is the duty of this group of experts to consider Germany's ability to meet reparations payments. There are 2 phases of this study. One is the need to make a start on some plan to take care of the postponable reparations payments, in abeyance for 1 year (from last July 1) under the Hoover moratorium plan. It is already obvious that Germany will be unable to pick up these payments at the end of the moratorium year where she left off last July.

The second is the problem of unconditional payments due to France and amounting to $157 millions annually. These, under the moratorium, are to be paid by Germany to the Bank for International Settlements but are reloaned immediately to Germany.

Technically, the experts are hamstrung on any recommendations for immediate relief for Germany relating to the unconditional annuities by the Young Plan itself, which specifies that the committee shall "play no part" in this unconditional payment, once it is accepted by Germany.

The second committee of bankers will study what are commonly called private (commercial), in contrast to political (reparations), obligations.

The United States and Great Britain are most heavily involved. According to the Reichsbank's latest report, there are outstanding more than $3,000 millions of German short-term debts, about $700 millions of which are owed to United States bankers; $400 millions to British.

Involved somewhat less immediately, but "involved," nevertheless, are long-term German obligations, estimated to total $2,925 millions. The seriousness of this long-term outlook becomes significant when the creditors are known, for they are largely those whose short-term loans are frozen in Germany.

More than half the total—definitely $1,300 millions—is held in the United States. Holland is second with about $300 millions sewed up. Britain's total is only slightly less—$275 millions, with Sweden holding another $200 millions, and Switzerland $120 millions.

"Die Tage"

May 27	Credit-Anstalt, Vienna, fails
June 21	Hoover reparations-war debt moratorium proposed
Aug. 19	Commercial bankers, following Wiggin investigation, announce Basle "standstill" agreement
Sept. 21	Great Britain goes off the gold standard
Oct. 1	Laval and Bruening reach agreement in Berlin for Franco-German economic cooperation
Oct. 26	Laval and Hoover conclude conversations which give France free hand to deal with German situation
Dec. 7-10	About this time, commercial bankers in Berlin, Young Plan experts at Basle, meet to attack the German financial problem
(1932)	
Feb. 23	Reichstag reassembles in Berlin
Feb. 29	"Standstill" agreement ends
June 30	Hoover moratorium ends

Private Loans

Under the Young Plan, only reparations are concerned. Private debts entered the current German financial tangle with the "standstill" agreement last August. This comes to an end, technically, Feb. 29, 1932. Germany then faces the loss of a large portion of these short-term loans, unless some new agreement is reached at the December meetings, for confidence in Germany has not returned and conditions in lending countries have not eased.

For Germany to meet these short-term obligations, beginning Mar. 1, and carry the unconditional reparations is, according to struggling Germans, impossible. Creditors more or less agree. But none is willing to give up a part of his due.

Thus the interest in the coming meetings, scheduled loosely for Dec. 10, in Basle and Berlin. Technically they are unrelated. Actually, bankers on both sides realize there is the very closest relation between them. But Premier Laval voiced France's uncompromising view when he said France cannot possibly accept priority of commercial debts over unconditional reparations (a negative statement, be it noted). Stanley Baldwin was even more uncompromising at the other extreme when he declared Britain could not possible see reparations taking precedence over private debts.

So world bankers at next week's 2 important conferences are faced with these problems: (1) Exactly what is

the total of Germany's outstanding obligations now?

(2) Based on improved exports, extremely drastic economies at home, and admitting the adverse effects of world-wide depression, what is Germany's utmost capacity to pay?

(3) Admitting Germany cannot possibly meet all obligations, what plan can be made to which all creditors can agree, to share whatever Germany is able to pay? (This should lead to a new plan to replace the "standstill" agreement on Mar. 1, and the Hoover moratorium in July.)

Europe Is Pessimistic

Speculation over the possible answers to these questions is reserved, largely because international bankers have come to no agreement at preliminary conferences. As a matter of fact, Europeans are pessimistic over the success of the meetings because no small groups have paved the way for cooperative action, and because governments are at odds.

France, probably justly, is demanding that unconditional reparations be continued. That absorbs $157 millions a year of the estimated $250 millions which may be available for Germany's payments. Britain, forced off gold largely because of loans frozen in Germany and Central Europe, is as determined to salvage as soon as possible at least the short-term loans to Germany. With $1,250 millions involved, American bankers are not likely to sit back without a struggle and see their loans either pared down or tied up in a fresh moratorium. Holland, Switzerland, and Sweden have no interest in reparations, are likely to side with the United States.

Its Back to the Wall

Withal, however, every creditor has an eye on Germany. How much further can the Germans be squeezed without running into internal disaster?

The country has its back to the wall. It has a few assets, some more promising than others:

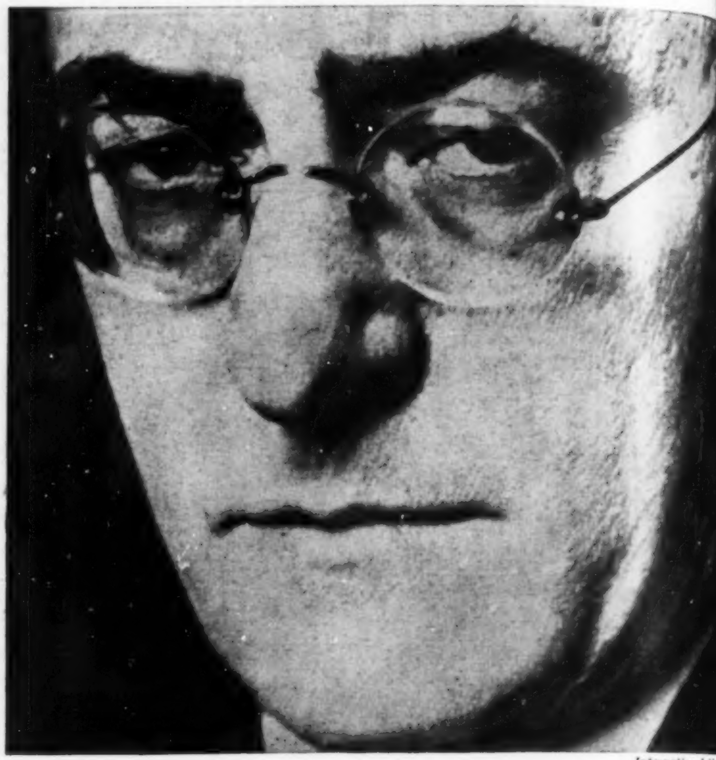
(1) The export surplus has mounted by leaps and bounds. In August the country's surplus was greater than that of the United States. The October total was above September.

(2) Returns from shipping freights, and from insurance are good, though below last year.

(3) The country's superbly rationalized industries are ready to profit from any improvement in world markets, any arbitrary opening of new markets to Germany.

But there are unfavorable factors which are worrying foreign creditors:

(1) Tariffs the world over are being



International Ne

CHANCELLOR BRUENING—*"Germany has a hard road . . . we are determined to proceed . . . abiding the time—which soon must come—when international cooperation is to save the world from misery and chaos."*

raised. Britain's emergency duties hit Germany harder than any other country. Countries off the gold standard already are buying less.

(2) The Reich has already been forced to declare a moratorium on internal agricultural debts in eastern Germany; it may spread as mortgage banks feel the pinch.

(3) Chancellor Bruening is getting ready to call up the country's last financial reserves by increasing the business turnover tax from 0.75% to 2% or more, despite the effect on trade.

(4) Recent fresh Hitlerite successes are making Bruening's parliamentary position, already precarious, likely to become untenable by February, when the Reichstag reassembles.

This is serious, for it makes it entirely probable that Adolph Hitler's party will come into power. Berlin thinks this improbable before February, but likely by May at the latest.

A conservative estimate based on recent state elections indicates that Hitler's control has spread to 13 million voters, out of a total of 35 millions. Though this is not a majority, it is the best record ever rolled up by a single German party. His virtual strength is greater than the actual numerical strength owing to his excellent organization and his hold on German youth.

If Hitler comes into power, it means (1) an absolute impasse as far as relations with France are concerned since repudiation of reparations is the main point in his program; (2) general financial upheaval which might readily make payments still more difficult, although leaders in the Hitlerite party admit the necessity of honoring private foreign debts; (3) the economic ideal of making Germany self-supporting, and therefore the probability of drastic new import restrictions; (4) an anti-foreign attitude which is likely to impair the operating of foreign branch plants in Germany; (5) probable anti-bank measures, and compulsory reduction of interest rates (based on the Hitlerite condemnation of capitalism); (6) a dangerous inclination toward Bolshevist economic experiments despite the fact that Hitlerism condemns communism.

Not since 1918 has Germany's future been more uncertain. If, at the pending conferences, bankers can avoid a collapse in Germany by agreeing to a longer moratorium on conditional reparations, and to the payment of unconditional reparations "in kind," Germany theoretically will be able to pay

250 millions on private obligations annually. This, however, is conditional on the maintenance of the record trade balance threatened by a tariff blockade.

If new foreign markets are voluntarily opened by creditors in their colonies, or if the recent Franco-German cooperative trade agreement can be made to function promptly, Germany might pass the crisis without even the sacrifice of Chancellor Bruening.

But conferences and delegates are not given to miracles. The most optimistic are not sanguine over Germany's future —and the destiny of the foreign capital involved.

Glass Committee Puts The Banks on Record

POLICIES and views of the 12 Federal Reserve Banks were exposed to public inspection for the first time this week as a result of investigation by the Glass subcommittee of the Senate Banking and Currency Committee. As expected, conservatism dominated their stand on all proposals for changes in the banking law which will affect them.

They unanimously opposed proposals to change discount eligibility provisions to any considerable extent, though some expressed willingness to see more liberal provisions established for strictly emergency conditions. They testified in chorus to the adequacy of eligible paper standards and disapproved prohibition of member banks from making additional security loans while borrowing. Holdings of paper of closed banks were reported to be considerable at various times, while borrowings of branch banking systems were shown to fluctuate more widely than those of unit institutions.

Only 2 Reserve banks raise acceptability requirements during times when Reserve policy is toward credit restriction. Credit tests applied to paper presented for discount showed wide differences. Excess collateral against borrowings are required at various times, it was revealed. The banks also held varying views as to the adequacy of moral suasion as a central banking policy device.

No-Loan, No-Interest Bank Is Height of Conservatism

IN Florida, this week, was established an institution which will hold its resources entirely in cash and U. S. government securities, will make no loans and will pay no interest on any deposits. It is virtually a safe deposit box with checking facilities.

The new bank, Bank of Miami & Trust Co., is founded on liquidity, a goal toward which nearly all banks have been striving these recent months. Entire emphasis is placed upon the bank's duty to its depositor, which is the original function of banking, that of safe keeping. The bank gives no consideration to borrowers, a policy motivated by the sad experience of large losses on loans by so many banks. Investments, which are simply an indirect form of lending, are treated the same way, with the exception of the securities issued by the federal government.

Although theoretically commendable, actual operation of any considerable number of banks on this policy would be disastrous to the economic system, would result either in the retracing of all economic progress to a cash basis of business, or the development of new institutions to fill the function of banks as presently operated.

And although theoretically safe, actually such an institution approaches that other danger—the inability to earn enough to meet operating expenses. Abolition of interest payments reduces operating expenses to a point where this is avoided, but this makes the bank less desirable as a depositary institution.

The one remaining step toward complete conservatism would be a safe deposit company called a bank.

Bankers Design a Governor For the Economic Machine

Propose change in reserve requirements to check booms, ease credit in depressions

THE Federal Reserve Committee on Reserves proposes, by legislation, to attach a governor to the American economic machine. It would be geared to bank credit, the drive shaft. Enthusiasts believe it would give much improved service at a very reasonable price.

The core of the idea is that whenever business speeds up, banks shall be forced automatically to set aside a greater proportion of their funds, keep them idle, thus contracting credit and putting the brakes on incipient booms. Conversely, any slowing down of business will automatically release bank funds, permitting expansion of credit, heading off incipient depressions.

The proposed control device is to be fashioned out of the extremely sensitive and none-too-well understood material of bank reserves. It has, as yet, received no O.K. from the Federal Reserve Board—but the committee includes many of the Board's advisors. Final action will depend upon the attitude of the Board and of Congress. Congress has long wanted better control of credit; probably the committee's proposals will find considerable support. Principal opponents will be conservatives, distrusting all change, and some big banks, which would have to increase reserves.

Fundamental changes in banking law and philosophy are proposed in the Reserves committee's recent report. If enacted, they will affect the economic machine more than any changes since the institution of the Federal Reserve system just before the World War. Certainly the proposals will be in the foreground of all discussion of bank legislation.

Bank reserves have been regulated by law in the United States for about 70 years. This is one of the very few countries of the world where reserves are the subject of legislation at all. Most nations leave to bank management the amount of reserves which shall be kept against deposits.

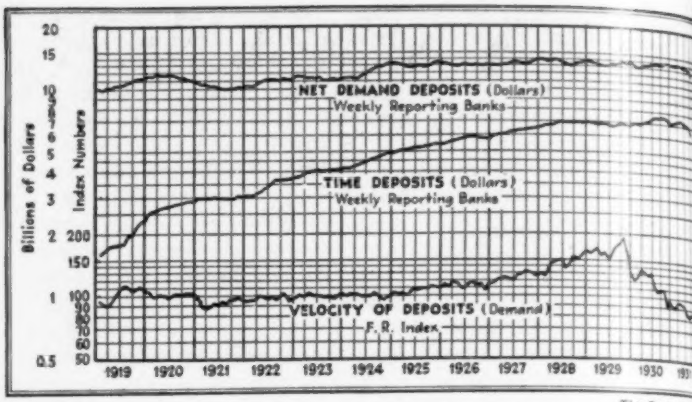
Reserve Requirements

Here the amount of reserves has always been based solely upon the amount of deposits. Reserves are designed to assure liquidity. The law has given some consideration to the variation in banking conditions, but only a little. Furthermore, the amount of reserves stipulated has been diminished steadily in recent years. The result of this has been to multiply the utility of bank assets, for the smaller the amount required for reserves, the greater the proportion freed for credits.

Prior to the Federal Reserve Act, city national banks had to keep 25%

reserve against deposits; country banks, 15%. In the original Reserve Act this was cut to 18% for largest cities, 15% for large cities and 12% for others on demand deposits; to 5% for all banks in time deposits, supposedly savings deposits. Later the demand deposit requirements were cut to 13%, 10% and 7% respectively; the time deposit requirements to 3%. Originally reserves had to be held in vault or with correspondents; now all must be kept with Federal Reserve Banks. These reserves provide the funds with which the Federal Reserve Banks carry on their operations.

In recent years, the belief has grown that business and prices should and could be stabilized by bank credit control. Concurrently, present abuses and inequalities have become apparent.



Bank Deposits and Turnover—*The chart shows the rise in time depos... and the changes in velocity during boom and depression—both giv... point to the new plan for regulating bank reserves*

A New Philosophy

The Reserves committee proposes a new philosophy regarding reserves. Liquidity, it holds, is now assured by the existence of the Federal Reserve Banks, from which member banks can obtain funds if they have good assets. Possession of these assets is to be left to bank management.

But the Reserve banks must have funds with which to operate, and sound credit conditions have a profound effect upon the soundness of bank assets. So the proposed philosophy is that the function of reserves is to provide the Federal Reserve banks with funds and to assure sound credit conditions.

The committee holds that credit conditions become unsound when credit is expanded beyond the needs of business. Bankers have long held that customers' demands largely determine the amount of credit extension. At any event, credit control can strongly influence, if not control, business.

But to control the net effect of credit, both the volume and the rapidity of its use must be considered. The amount of business a given amount of money can finance depends upon the rapidity with which it is used. The accompanying chart shows clearly that it was the rise in velocity rather than volume of credit which primarily financed the 1928-29 boom—and conversely that it is the drop in velocity and not in volume which is responsible for the present depression.

A Double Basis

So if reserve requirements are based on both velocity and volume, instead of volume alone as heretofore, the desired improvements will be achieved. Rising net effect of credit (volume times velocity) will force banks to increase reserves, which restricts the supply of funds and curbs credit expansion and, therefore, booms. Conversely, bank credit will become easier and more plentiful in depressions. The 2 factors in proper relation will continue to give the Reserve banks an adequate supply of funds. And reserve requirements will work with, instead of against, Federal Reserve policy, which is to fight both over- and under-expansion.

The technical changes necessary, as proposed by the committee, are: Against all bank deposits, a 5% reserve required. Additionally, a 50% reserve against daily average withdrawals. Total reserves would never exceed 15% of the volume of deposits.

Removing Temptation

Treating all deposits exactly alike would cure today's major abuse. Banks today are tempted to divert as much of their deposits to time ratings as possible, because of the lower reserves required. The chart shows the extent to which this temptation has won; the predominant growth in deposits since 1919 has been in time deposits. Corporations and wealthy individuals have been increasingly willing to put funds on time, and the saving of reserves which banks could achieve enabled them to make this practice attractive. This and the lowered legal requirements resulted in a large growth of bank credit without a corresponding growth in reserves.

Moreover, the large amount of time deposits was used as an excuse for investments in securities and long-term loans, which now are frozen.

What the committee considers inequalities result from regulations on cash held in vault and from deductions in figuring deposits. The present system does not count cash held in a bank's vault as legal reserves. A bank close to a Reserve institution need ca... little cash, for it can get funds promp... from a Reserve bank. Banks farth... away must carry considerable ca... which means funds tied up in additi... to their reserves. This gives the near... banks a considerable advantage—a si... uation which would be remedied b... counting some vault cash as legal r... serves. Inequalities resulting from d... ductions favor correspondent ba... against smaller banks. These, to... would be remedied.

The committee believes that the ne... plan would produce a reserve requir... ments system which would operate f... sound credit conditions, would rel... bank credit to trade and industry, pr... vide the Federal Reserve with adequ... resources, be equitable, simple to a... minister and unsusceptible to abuse.

Probable Results

Some of the results probable if th... plan is put into effect are:

(1) Tighter money conditions whe... ever and wherever booms develop... easier money wherever business slow... down;

(2) More extensive and stricter serv... ice charges on checking accounts, a... velocity would increase bank reserv... against the account;

(3) A slight decrease in the use o... bank checks and a slight increase i... the use of cash;

(4) More effective Federal Reserv... policy;

(5) Contribution of a larger amou... of reserves by big-city banks, a smalle... amount by smaller banks;

(6) Considerably easier condition... for smaller, and especially countr... banks;

(7) About the same total volume o... bank reserves as exist under prese... conditions.

What It Takes to Be A Hard Times Success

These 358 assorted profit-makers owe it all to better products, better advertising, better production

RESULTS of a special study by the U. S. Department of Commerce show that improved marketing (particularly increased or maintained advertising appropriations) contributed more than any other single factor to the success of certain concerns that maintained or increased sales volume or profits during 1931.

The survey covers 358 examples; includes 202 manufacturing industries, 43 retail distributors, and 10 wholesalers, located in 74 cities in 30 states.

Improved marketing methods are credited in 254 cases (70.9%) with the following activities more specifically cited as responsible:

Advertising	80 cases
Sales Effort	46 cases
Market Research	18 cases
Reduced Prices	18 cases
Dealer Cooperation	17 cases

The 80 companies which credited advertising included 29 with increased appropriations, 19 that had maintained them, and 32 that had effected various changes. Of these, 4 had reduced but still credited advertising policies with their success.

Of the 90 concerns which profited by closer attention to products, 20 brought out new products, 20 improved the quality, 17 increased the consumer appeal, 14 diversified their products, 11 expanded research, 5 improved packaging, and 3 specialized intensively.

There were 59 reports in which economies in production resulted in improved performance. Reduced operating expenses helped 24 concerns, 14 succeeded by installation of modern equipment, 9 through balanced production, 7 by reduction of overhead and 5 saved in their purchasing departments.

General improvement in administrative policies was credited in 7 cases, and 5 mentioned new financial policies as major reasons for succeeding.

Specific examples provide details:

Manufacturer A developed a new piston ring, offered it at a price 10¢ each higher than the next competing article, increased advertising expenditures; shows a 34% increase in profits during first 6 months of 1931.

Manufacturer B, making automatic stokers, ordered a complete study of its distribution system, then realigned sales territory for more intensive selling at less cost, maintained advertising appropriations but increased trade journal and direct mail advertising, capitalized the money-saving features of its product, made a satisfactory profit.

Profits up 34%

Manufacturer C, making aluminum and brass goods, increased his sales force, had executives spend more time with present and prospective customers, developed new products and found wider use for the old lines, made an organized and intensive effort to reduce expenses, shows for 6 months of 1931 a 34% increase in profits over 1930.

Manufacturer D, food products, has maintained quality, improved packaging, increased advertising to record proportions, established closer dealer contacts, practised hand-to-mouth buying, cut manufacturing costs by use of new machines, reports profits for first 6 months of 1931 almost equal to those for the entire year 1930.

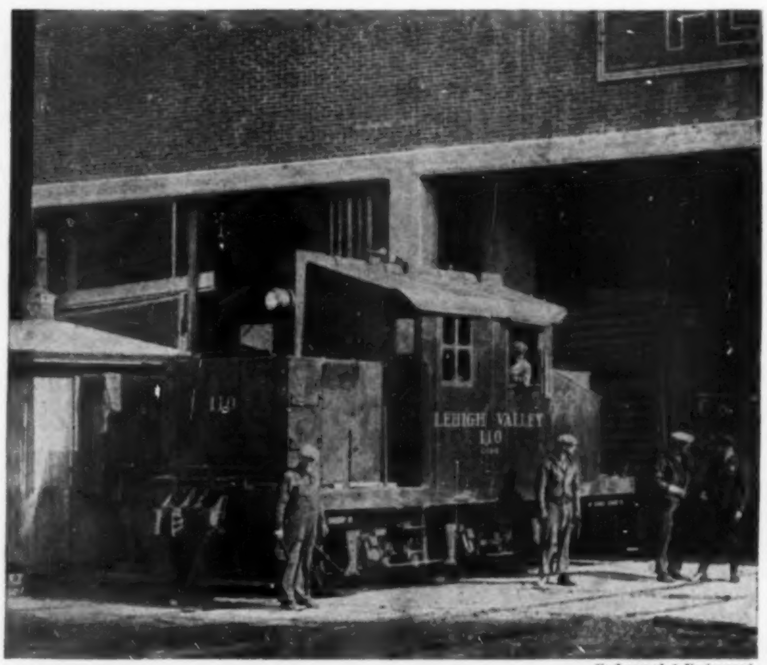
How Stores Did It

Among the 43 retailers reporting satisfactory 1931 operations, were 12 chain systems and 31 independent retailers, the latter including 11 department stores. Limited by the fairly stationary percentage of spread between the cost of goods determined by manufacturer, and selling price determined by local competition, these retailers have found success through improvements of policies and methods within their own organization, and cited among others the following specific activities:

Employee Training	8 cases
New Equipment	7 cases
Reduced Overhead	7 cases
Increased Advertising	6 cases
Intensive Selling	6 cases
Expense Control	6 cases

A Mid-Western department store reports satisfactory results from adjusting all selling prices to current costs, maintenance of complete stocks and ample assortments, an aggressive policy of advertising and promotion, an increased sales force to give adequate service.

A Southern food chain gives customers the benefit of all price reductions as they occur, concentrates on quick moving lines, watches turnover closely; during first half of 1931 shows a 20% increase in sales over the same period of 1930 and profits within $2,000 of total for 1930.



Underwood & Underwood

RIGHT INTO THE BUILDING—*At the new Starrett Lehigh building, New York, freight trains roll right into the building, and trucks not only go in—they go up the elevators to the tenant's delivery floor*

Cluett, Peabody Proves More Flexible Than the Stiff Collar

When the Arrow collar man went to soft shirts, Mr. Palmer followed him, and rebuilt profits

Long-term planning under the guidance of a sales-minded president has pulled the sales and earnings of Cluett, Peabody & Co. out of a 6-year nose-dive, promises to give the 80-year-old collar- and shirt-making concern a better and tighter grip on its market than it enjoyed even at the height of the white collar era.

Collars, starched collars—to be quite exact, white starched collars—had been for generations the body and soul of Cluett, Peabody's business and, obversely, their Arrow brand had been practically the Alpha and Omega of the country's collar business. Upon reaching the collar age almost every male buttoned around his neck a gleaming white creation from Troy, N. Y., and thenceforth an Arrow-marked strip of some style or other formed an important part of his daily attire.

Things Looked Rosy

With a market apparently limited only by the country's growth, the laundries as valuable allies, and style a factor only to the extent that makers of Arrow collars were willing to have it so, methods of mass production were perfected by which the making and selling of less than a square foot of sewn-together goods became an extremely profitable business even when the retail price stood at 2 for 25¢. In 1923 Cluett, Peabody & Co.'s sales were over $\$28\frac{1}{4}$ millions and its operating income nearly $\$3\frac{3}{4}$ millions.

Then a change in trends of male attire began to show its effects. Men in service during the Great War, grown accustomed to soft collars, gladly donned citizen's clothes upon returning home, but drew the line at the old reliable starched choker. Soft and semi-starched collars and shirts with collars attached became the vogue.

Expected a Come-Back

The production-minded executives of Cluett, Peabody & Co. saw sales volume dwindling, knew the cause, but expected that the starched collar era would soon return, and so did nothing in particular about it.

Not so with the Iowa-bred C. R. Palmer, now president of the company, who back in 1898 had started as a counter salesman at the Chicago branch.

While still director of sales in the Chicago district, Mr. Palmer had seen the drift to the soft-collar shirt and begun to urge that the company's line of Arrow shirts be expanded so as to cash in on current demand. Made vice-president and stationed at the factory and general office in Troy, N. Y., he continued pleading with little success.

But when the boom of 1928 and 1929 had no beneficial effect on the company's sales, in fact saw volume drop to the lowest in a decade—even 25% under 1923—the most confirmed white collar enthusiasts agreed that something drastic had to be done, decided that this Iowan who had been calling for more shirts, better shirts and wider varieties, should have a chance.

In the $2\frac{1}{2}$ years that Mr. Palmer has guided the affairs of Cluett, Peabody & Co. as its president he has done some remarkable things.

To impress his associates forcibly with the fact that selling is something apart from production, he established executive offices in New York, and succeeded in creating more complete cooperation between production and sales departments than existed when both were literally under one roof.

The company's price policy has seen revolutionary changes; special discounts, allowances and rebates have been eliminated, all customers put on equality.

The Palmer demand for a non-shrinking shirting material that would make Arrow shirts leaders in that field resulted in Sanford L. Cluett's discovery of the Sanforizing process, now used on all Arrow shirt materials.

Sales Keep Rising

Results appear to have justified the effort. Sales that had lagged in the boom years began to increase, thanks to more intensive selling of shirts; in 1930 went well above the 1929 low. Earnings on common stocks in 1930 were nearly 50% above 1929.

Sales volume of shirts which formed but 42% of the company's total business in 1926 will account for about 73% in 1931, and collars, which brought 58% of total volume in 1926, now bring but 27%.

But the starched-collar prophets may still have their inning. Large companies, with many male employees in offices, sales departments, etc., are beginning to feel under the stress of the times that there may be some connection between slouchy appearance and slouchy work, are asking employees to wear starched collars from October to June. Some banks have made such rulings, one large New York department

Acme

Directory Relief—*The advance guard of unemployed clerical workers who will be given jobs on the new city directory for New York, sponsored by the Emergency Relief Committee, directed by R. L. Polk & Co.*

LEE H. BRISTOL—*Successful president in a tough year, the Association of National Advertisers reelected him to carry on the work*

store has joined, insurance companies are interested.

Sales of Arrow collars are on the increase and, scenting an opportunity, Mr. Palmer is launching a special advertising campaign to focus attention of executives upon the value of a stiff collar as an aid to stiffer work or perhaps more of it.

National Advertisers Put Color to the Acid Test

DURING the boom, advertising showed a natural tendency to over-adornment, was inclined to stroll languidly along flowered paths avoiding the sweaty hubbub of trade. Today she is back where she belongs—the handmaiden of sales. A recent Department of Commerce study (page 9) reveals to what extent concerns are relying on advertising as a direct aid to business during the depression. Maintained or increased advertising was given as the greatest single factor in resisting the downward pull of the depression.

Also indicative of a return to realities is the thorough manner in which executives are dissecting appropriations to determine the exact amount of sales earned by each advertising dollar. The Association of National Advertisers plans a series of surveys on magazines to insure basic information for space-buying and copy-preparation. The A.N.A. is made up of national advertisers so that its explorations inevitably center on the most productive split-up of advertising budgets.

Already the organization has published the first of its studies. It is a report on color in magazine advertisements. Authorities have long admitted the pull of color but the great question has been: Does color justify in dollars and cents its extra cost? The A.N.A. evidence shows that color usually justifies itself in consumer advertising—but not always.

Cost of Color

Astonishing is the diversity of color costs. The spread between black and 4-color process ranges from 3.2% to 90% for given magazines. Each advertiser must determine for himself whether the extra cost is worth while. The report quotes Dr. Daniel Starch's analysis of 5 million inquiries which showed that color brought an average of 53% more returns per 100,000 circulation than black and white. (Interesting is the revelation that 4-color runs cost 52.9% higher on an average than black-and-white.) But, warns Dr. Starch, "It should be noted that . . . color may and probably is more valuable for some types of products (such as foods) than for others (such as machinery)."

In 1930, 19 advertisers who spent over $1 million gave color space 63.5% of their appropriations. Catalogue advertisers have also gone strongly to color. Big mail order houses found that color pages pulled 6 to 1 better than black and white. But—the A.N.A. report points out—much of the power of color during former years was its novelty. "It fails or succeeds now by its own inherent merits, for its excuse (for use) as a happy relief from monotonous black and white is no longer reasonable."

Teletype War Starts, Perhaps for Small Stakes

DRIVEN together by expansion of the Bell telephone system in the teletypewriter field, the Western Union and Postal telegraph companies Dec. 1 put into effect an inter-communicating "printer" service, issued a directory of customers, published new Timed Wire Service rates, started a counter campaign for business. The minimum telegraph charge is for a 3-minute period and is twice that for a 10-word full-rate telegram. The Bell minimum is 5 minutes. The telegraph companies claim an advantage here, since they declare few customers need the longer period.

In a comparison of message costs, Bell has the advantage for short distances, W. U.-Postal, for long. Between points in New York City the Bell rate is 20¢ for 5 minutes; their rival charges 30¢ for 3 minutes. Between San Francisco and New York, Bell charges $4.60 for 5 minutes; W.U.-Postal, $2.40 for 3 minutes.

Getting Their Share

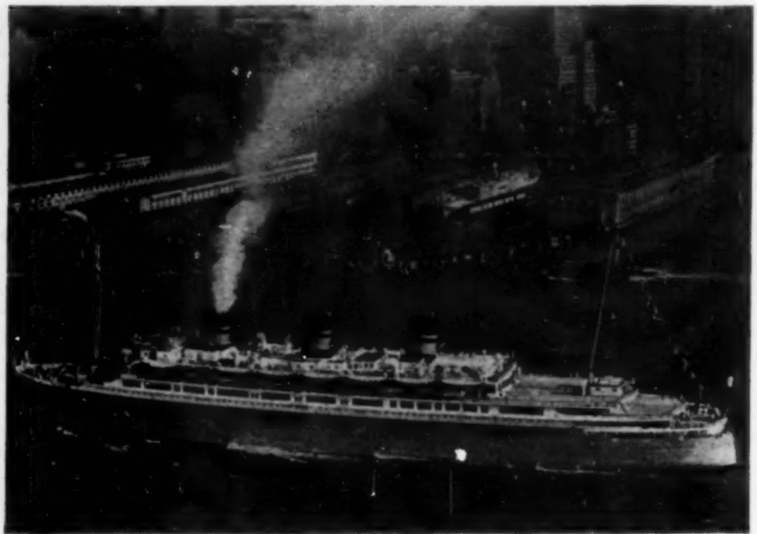
The telegraph companies do not believe the teletypewriter field is capable of great expansion. Concerns which need teletype most already have it. But they are prepared to get their share of new business if events prove there is any. The telephone company's teletypewriter business formerly was confined to its leased wires.

The "Telegraph Timed Wire Service Directory" lists 9,059 customers. To all of these the new rates and facilities are now available. Telegraph officials point out that the Bell's 10,000 teletypewriter machines now operate on leased wires and none of them will be able to use the new teletypewriter exchange without changed installation. If Bell switches these customers to the exchange service, they must forego the more profitable leased wire basis. In answer to the back-and-forth conversational feature offered by the Bell exchange, the telegraph companies say that seldom is the receiver of a message prepared to answer immediately, that time is often required for reference to records, etc., that the telegraph method makes separate steps of query and reply, charged for only during the actual dispatch of the message.

Same Telegraph Wires Do 5 Times the Work

BY a two-month test between Washington and New York the Postal Telegraph-Cable Co. has successfully proved a new principle which may be used to multiply by 5 the wire facilities of the country. Significant is the fact that, hereafter, Postal can greatly increase its business by a small additional investment in equipment. Future demands will tell whether or not Western Union will adopt the improvement.

Telephone companies have been able to carry 6 messages simultaneously over the same wire. Formerly, the best the



International News

Bermuda Bound—*The "Monarch of Bermuda," fresh from Glasgow, arrives in New York, most luxurious of liners in the Bermuda service*

telegraph could do was 2 messages at the same time—one in each direction. International Communications Laboratory (like Postal, a member of the International Tel. & Tel. family) got busy on the problem and solved it. The multiple messages travel the same track without interference, just as radio messages do—by the use of different wave lengths. No change is necessary in the present telegraph set-up except additional equipment at wire terminals.

To make absolutely sure, Postal tried the new system between Washington and Richmond—over bad stretches of spliced wire. It withstood this test, proving its availability for any telegraph line in the country.

Radio Still Has 60% Of the Country to Sell

Radio sets were owned by 12,078,345 families, or 40.3% of the country's April, 1930, total of 29,980,146 families, according to tabulations just completed by the Bureau of the Census, U. S. Department of Commerce.

New Jersey leads in density of set ownership with 63% of its families able to listen in, its large New York and Philadelphia suburban populations being chiefly responsible for the leadership. New York state is second with 57.8%, Massachusetts third with 57.6%, and Mississippi last with only 5.4% of its families boasting radio dials to twist.

Tabulation of percentages of families owning sets by economic regions (*BW—Jan8'30*) shows the Middle Atlantic states leading with 55.3%, closely followed by 53.8% for the New England states and 50.2% for the 5 East North Central states—Ohio, Indiana, Illinois, Michigan and Wisconsin.

In the Mid-West and Central Northwest area 8 states with 43.1% of their families on the air approach the country's average, North Dakota with 40.8% practically equalling it.

Pacific Coast Ranks High

The 3 Pacific Coast states, California, Oregon, and Washington, form the only other group in which percentage of radio owners to total families exceeded the country's average, report 49.1%.

In other regions the census discloses comparatively low penetration, remaining wide markets for radio sets.

The group of 8 South Atlantic states from Delaware (45.8%) down to Florida (15.5%), including West Virginia (23.3%) and the District of Columbia (53.9%), averages only 19%, with the two Carolinas and Georgia averaging less than 10% of their families on the set-ownership roster.

Kentucky, Tennessee, Alabama, and Mississippi show the lowest percentage (12.3%) of any regional group, with the average of 16.5% for the group made up of Arkansas, Louisiana, Oklahoma and Texas next in line.

Utah with 41.1% leads the eight Mountain states, which averaged 30.9%, while New Mexico with 11.5% is lowest in this group.

With this specific and detailed information in hand, radio manufacturers and distributors are in a preferred position to do intelligent sales planning.

New Chevrolet Offers More for Old Price

Chevrolet Motor Co. offers this week the 1932 model with which it hopes to maintain its sales lead of 1931. New features: synchro-mesh transmission; over-running clutch (free-wheeling); stream-lined bodies with visorless slanting windshields; inside sun visor; deeper crowned fenders; 20% more powerful engine suspended on 4 rubber mountings held in stamped containers; stabilized front end.

The front end has been redesigned; wheelbase remains 109 in. but the general appearance of the car is longer, lower, speedier. Down-draft carburetion, counter-balanced crankshaft, smaller wheels and larger tires, an additional frame cross-member are other selling features. The line will include 12 standard body types—3 open and 9 closed, and 8 de luxe models. Prices remain about the same as on the 1931 schedule.

New Graham-Paige

Graham-Paige will announce The Blue Streak, a new line emphasizing racy, streamline appearance, to be priced well below any other of the company's cars. Lincoln's new offering will be a 12-cylinder car equipped with selective free wheeling and a 150 hp. engine.

Body design tends toward the convertible type to replace open models. All-steel bodies and steel wheels gain favor. Reduction of number of models has not gone far, tendency is rather to cover the market—Buick offers 26 models in any desired color.

Sales of new passenger cars for October totaled 102,659 units, according to R. L. Polk & Co. This is 32% less than October, 1930, and 18% under September, 1931. Likewise, October, 1931, sales were 55% under the 5-year average of 230,066 for the same month.

New truck sales in October were 24,714 units. This is 28% under October last year and 34% under the 5-year average October, of 37,458 units; but only 5% under the 25,967 units registered in September.

Motor Salon Forecasts Future Motor Shows

Better streamline effects feature exhibits of custom-built cars exhibited at the Automobile Salon in New York this week. Past experience shows that design trends shown here forecast developments in standard cars of the

future, which makes the Salon more significant than the restricted market for custom cars indicates.

Several cars, particularly a sedan and a coupé built by Walker Coachcraft for Franklin chassis and a Brewster designed Rolls Royce sport coupé, come close to the theoretical "tear drop" design which provides minimum air resistance. In the Franklins a V-shaped rear slants downward from the roof line while a similar "V" is made of the front of the car. The Rolls rear ends in a flat fishtail effect sweeping down without break from the roof.

New fender designs conceal running gear and chassis; give cars a hug-the-road appearance. Colors are much brighter.

Other unusual exhibits include a transformable phaeton by Duesenberg; a Chrysler speedster modeled after racing cars by Waterhouse; a Marmon coupé designed by Saknofsky, equipped with a "double entrée" door which opens both front and rear to give access to either seat. Many mechanical improvements were shown including better springing, narrow-angle V-type engines mounted on rubber or laminated springs; new valve mechanisms; sturdier chassis.

Foes of Gas Tax Diversion Mobilize to Stop Evasion

LAWBREAKERS and lawmakers have the oil, automobile, and roadmaking industries worried; to them, gas tax diversion and gas tax evasion are partners in trouble.

The gasoline tax is the one big tax which is paid almost without protest because taxpayers see a direct return in good roads received. Diversion leads directly to evasion: let legislators once get at this easy money and they are back for more of the same. Up goes the gallon tax and down comes the bootlegger on state and honest company alike.

Oklahoma, for instance, had a 4¢ tax; jacked up to 5¢, it will produce several hundred thousand dollars less.

Fortunately, there are no legislatures in regular session, and only 4 are due to convene next year. However, special sessions reveal the pressure which is being brought on lawmakers to divert this road revenue.

Pennsylvania proposes to increase the tax from 3¢ to 5¢. Oil men wave a warning finger, mention the economic point of diminishing returns. Said J. Howard Pew, president of Sun Oil:

"A survey of the entire country demonstrates beyond cavil that 3¢ is the point of maximum productiveness for this tax. Above 3¢, it tends to drive out the car, to produce lower gasoline consumption per car, to make a too attractive prize for the bootlegger. A 5¢ tax would inevitably drive a vast volume of business away from the Pennsylvania refining industry. You would be creating more unemployment in the state than you would be relieving."

Illinois Tries It

In Illinois, where legislators are staying up nights trying to find some way to avoid swallowing the bitter income tax and tobacco tax pills, prescribed by Governor Emmerson's emergency tax clinic (*BW—Nov11'31*), at least 2 bills to use gas tax revenues for unemployment relief have been introduced.

One would divert 1¢ of the present 3¢ tax. The other would levy 2¢ additional for 6 months ($10 millions estimated added revenue). A large unexpended balance in the state highway fund, intended for highway construction in 1932, is a great temptation, but so far the state fathers have found no legal way to touch it.

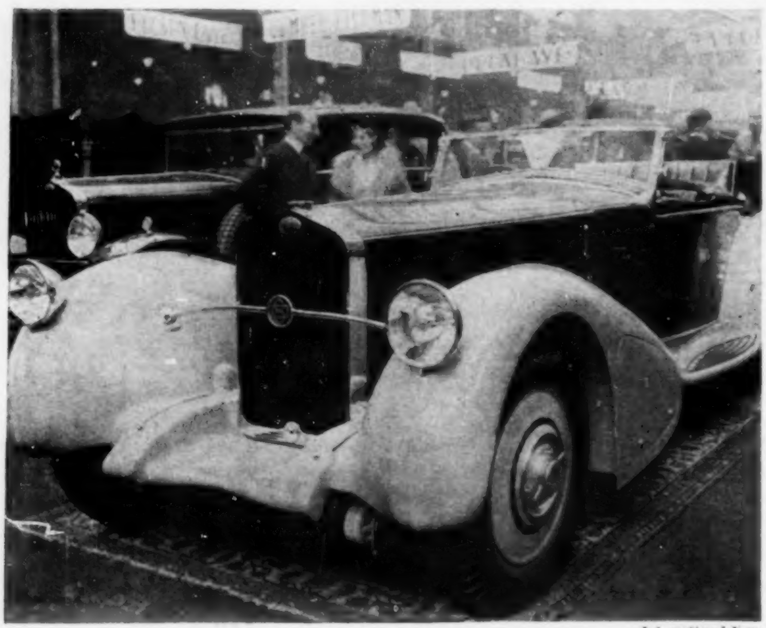
Perhaps the largest diversion yet attempted was thwarted this year. The governor of Indiana failed to get $13 millions of gas tax money for the state's general fund. Had it gone through, it would have cut road-building from 100 to 200 miles per year, the road people estimate.

Even for Oysters!

A statement of diversions in 1930, supplied to *The Business Week* by Portland Cement Association, shows that diversion occurred in only 16 of the 48 states, exceeded $1 million in only 7 of these. Largest was $7,381,774 in Texas, for schools. Florida diverted for school uses $3,803,629; Georgia, $2,238,477. Diversions in Ohio ($6,489,254), Maryland ($1,456,438), and Indiana ($1,069,867) were for city streets, with the exception of $75,000 in Maryland for oyster propagation. New York, the seventh state, set aside $1,421,314 for New York City to spend on streets.

Whether money allotted to cities to spend on streets can properly be called "diversion" is a moot question. Those who use city streets pay gas taxes.

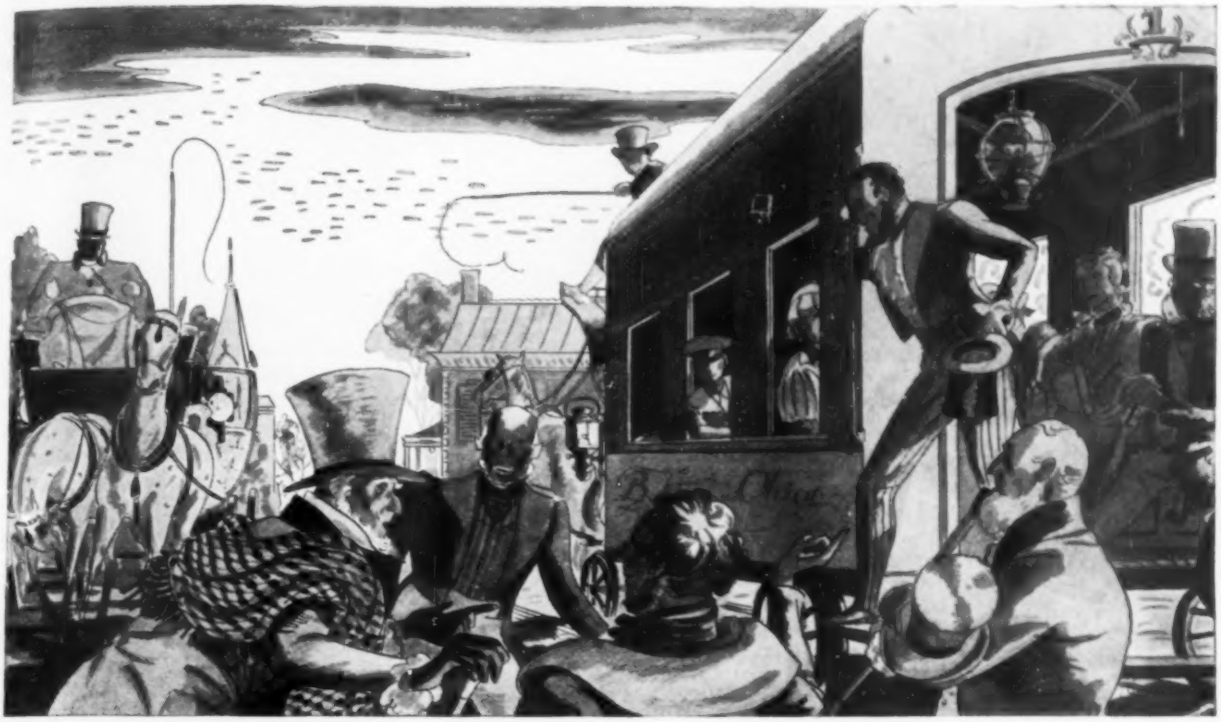
Heretofore, gas tax moneys have been used mainly to build primary state and



International News

IDEAS FOR TOMORROW—*The new Delage, at the Paris show. Note streamlined front fenders, with storage lockers, "step" running boards. Similar custom cars were exhibited at the New York Salon*

"RIDE ON THAT THING . . . UPON MY SOUL, NO!"



The aged John Randolph of Virginia, famous American statesman and Minister to Russia, refused to ride on the early horse-drawn railroad. He was suspicious and distrustful of the new-fangled contraption that went 13 miles in 65 minutes.

• • •

WE SMILE at John Randolph's fears because today we do not question the reliability of our railroads. Without railroads the whole aspect of our civilization would be changed. We depend upon them for the very essentials of life . . . food and shelter and clothing. In our dependence upon railroad transportation we also depend upon the General American Tank Car Corporation . . . the railroads' foremost aid. Railroads throughout the country, engaged upon the serious business of providing for a nation's needs, know they can rely upon General American for special freight cars to supplement their service whenever necessary.

This enables most railroads to operate more economically than would be possible if they had to maintain their own cars, whose use fluctuates greatly according to seasonal demand. Many railroads operate only enough special cars (such as refrigerator or tank) to take care of their daily needs. For large seasonal shipments they call upon General American to supply the additional carriers. In this way, they eliminate a wasteful 365 day investment and maintenance in equipment that may be used only 30 or 60 days. And General American, supplying first one road and then another, keeps its fleet busy throughout the year.

And in this way does General American aid these railroads, which today are the most efficient mode of transportation man has ever known. In addition to leasing cars to railroads and private shippers, General American builds *every type* of railroad freight car. Its diversified activity also includes the operation of a large public terminal for the handling and storage of bulk liquids and the maintenance of an extensive European freight transportation system. *Address Continental Illinois Bank Building, Chicago, Ill.*

GENERAL AMERICAN TANK CAR CORPORATION

BUILDERS OF ALL TYPES OF RAILROAD FRFIGHT CARS

interstate highways. The trend of the next few years, now that so many of the main through highways are built, will be toward further use of such money for city streets and for secondary country highways.

Compared to total revenues collected, diversions to date have not been so large, due to vigorous opposition backed by public opinion.

Generally, the bootleggers are a little ahead of the legislators; evasion takes more than diversion. The fight to stop it goes vigorously on.

Wabash Knocks Props From Fifth System

FORSAKEN by its bankers and the Pennsylvania Railroad, which controls half its stock, the hard-hit Wabash was declared insolvent and went into hands of receivers this week. This marks the second receivership for this road, the other having been in 1915, and the first important railroad failure in the present depression.

The receivership puts the Wabash on ice until the Interstate Commerce Commission chooses definitely between a 4- or 5-system plan of railroad consolidation in the East.

Under the 4-system plan the Wabash would go to the Pennsylvania. The commission's consolidation plan, however, links this old Gould property with the Seaboard line in a fifth system.

Last year the Pennsylvania was ordered by the I.C.C. to give up its 48.9% interest in the Wabash, but it refused and in the spring of this year filed suit to set aside the commission's order. The case has not yet been heard.

Railroad men have never thought much of the Wabash–Seaboard scheme, doubted if such a fantastic alignment would ever materialize. The failure of the Seaboard a year ago and the present bankruptcy seem to confirm their judgment. It should strengthen the Eastern carriers' consolidation case next January.

At all events, Pennsylvania's decision that "it should not add to its investment in Wabash" puts the I.C.C. in a hole. Whether this was needed to assure the success of the 4-party scheme is open to question. The commission is not wedded to the fifth system idea, but it does not like dictation.

Just before Wabash's bankruptcy, an organization known as the Fifth Eastern Trunk Line Association was started to marshal support for the fifth system. The casualty this week is likely to dampen its hopes.

Underwood & Underwood

RAILROADERS ALL—*Left to right: Ralph Budd, nominee for the Burlington presidency; Ellery James, New York banker; President Adams of Western Pacific; Arthur Curtiss James, railroad financier (he drove the spike connecting Western Pacific and Great Northern); Frederick E. Williamson, president-elect of New York Central*

Short Lines Know What Happens To Small Frogs in a Big Pool

Their special problem stalks into I.C.C. hearings and starts plea for a rescue fund of their own

PROGENITORS of practically all the great trunk line railroad systems and pioneers in the development of the country's natural resources, the short lines have fallen upon evil days. Once 7,000 strong, their number has been decimated by absorption in larger systems and by abandonment. The haughty Pennsylvania represents an aggregation of 544 short lines, New York Central 400, Southern 172, and so on down a list of the big systems that excludes only 5 transcontinental lines, the Union Pacific, Central Pacific, Southern Pacific, Northern Pacific, and Great Northern. Even the latter had its origin in a nucleus of small roads around Minneapolis.

4-Point Program

Many of the 542 lines that survive today are in difficulty, although a majority of them are still essential to transportation service. Doubtful as to the measure of relief they would receive from the rate pooling plan, the short lines have drafted a 4-point legislative program intended to meet their specific needs. The most pressing is cash to meet maturing indebtedness.

As funds obtained from the rate pool, either as loans or gifts, could be applied only to make up interest charges, the short lines have sought President Hoover's support for creation by Congress of a revolving loan fund available for other purposes as well. The American Short Line Railroad Association is now polling its members to determine how large this fund should be; $50 millions is a high estimate.

At the same time, the short lines urge repeal of the 1920 law providing for creation of a loan fund by recapturing one-half of the earnings of any railroad in excess of 6% of its property value. Intended for the relief of the short lines when enacted 10 years ago, this law has been a boomerang. They have contributed a large proportion of the $10.7 millions in excess earnings that have been impounded in the U. S. Treasury. But their earnings fluctuate. A short line that has earned little or nothing, or has actually been abandoned since, may in one year turn up a relatively tremendous income by hauling the sand, gravel, and cement used in the construction of a parallel highway.

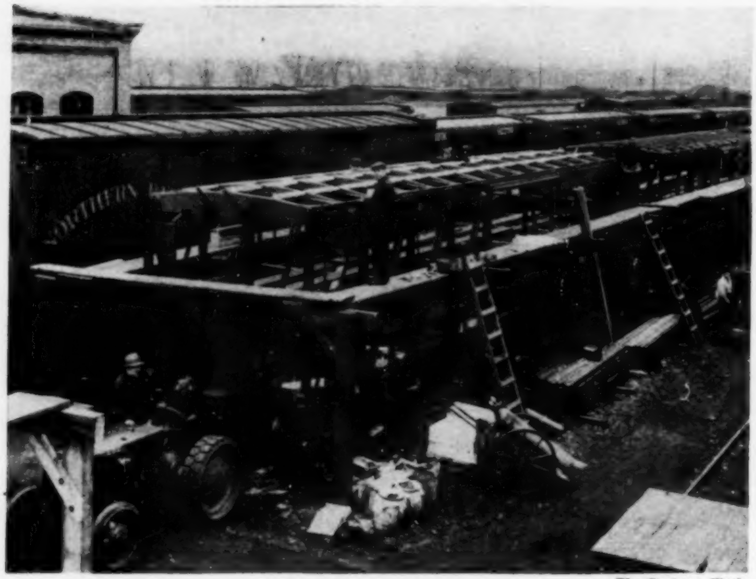
The I.C.C. hearing Nov. 28 on the railway executives' alternative plan for applying rate increases and distributing the proceeds as loans to needy roads turned to a large extent on how the short lines fit into the scheme. Commissioner Eastman raised the question whether refusal by industry-owned short lines to raise rates would prevent other roads in end-to-end competition with them from so doing. The answer was not reassuring. The I.C.C., on the other hand, does not have the power to compel the industry lines to raise rates.

Insistence by the rail executives that loans made through the Railroad Credit Corp. be secured by the best collateral available met with remonstrance from the free-thinking member of the commission. He argued that roads able to put up collateral may need it for other purposes.

"Only Way Out"

Alfred P. Thom, doughty counsel for the Association of Railway Executives claimed that "loans are the only way out"; that a vote to dispose of revenue derived from rate increases as a gift to other carriers would render the board of directors personally liable to objecting stockholders, who have the power to throw the issue into court, thus obstructing the commission's purpose. Nowhere, he said, are the railroads given the right to engage in eleemosynary undertakings; the commission, he argued, should not let the method of affording financial relief stand in the way when another will serve that does not raise any doubt as to legality.

The railway executives may have succeeded in convincing a majority of the commission that the gift plan is impractical but it was plainly evident that it will not swallow whole the alternative upon which the railroads have reached partial agreement. The weakness of the carriers' position lay in their



ON THE REBUILDING LINE—*Northern Pacific will spend $4 1-2 millions on rebuilding freight cars to provide work and take advantage of low material costs. Here are stock cars on the "reassembly line" at St. Paul*

admitted inability to present to the commission a plan that has the unqualified endorsement of all roads. Said Mr. Thom: "We think there is hope in this proposal and that enough will come in to make it workable."

There is no hope if the commission insists that roads which cut under the increased rates must pay into the pool the full amount of the increase for which the traffic affected is earmarked. J. M. Souby, Union Pacific vice-president, declared that some reductions are inevitable to bring rates down to what the traffic will bear. He suggested that if the commission desires a guarantee of good faith, it pass upon all proposed decreases.

Railroad Men See New Era Dawn In Cooperation to Boost Travel

FINDING cooperation better than excessive competition, all the railroads in Trunk Line and Central Passenger Association territories have decided upon a joint advertising campaign to promote travel over the Christmas holidays. Unusually low rates will be offered between all points, good from Dec. 23 to Jan. 4.

Not only does the projected plan mark the first concerted effort of railroads to create traffic on a basis which minimizes competition, but it may be the forerunner of a far more important cooperative agreement. If the results in the holiday period justify it, all Eastern and Western railroads are expected to join hands in advertising Western summer travel by rail. The present plan contemplates widespread exploitation of the percentage reductions in rates, with the names of the railroads signed at the bottom of the copy.

To experienced officials this looks like the dawn of a new era in rail passenger sales-promotion. Some have sought for years to launch such a program but have been blocked by the unwillingness of others to subdue the competitive urge. Now, the railroads plan to pursue both competitive and cooperative advertising at the same time—the latter, to build up a desire to purchase the railroads' product, transportation, while the former will still be employed to stress individual claims.

Taking a leaf from the book of the steamship lines, and recognizing that bargain rates must be made to attract patronage, the railroads may go even lower than the $125 round-trip rate quoted from New York to California or the Northwest last summer. Furthermore, opening up of the Great Northern–Western Pacific extension connecting California and Oregon by a new route competitive with Southern Pacific's Shasta Route has moved transcontinental officials to eliminate the extra $18 over Southern route fares levied on passengers entering San Francisco via the Northwest (*BW—Oct 14'31*)—which will permit next summer's tourists to travel between San Francisco–Los Angeles and Portland-Seattle at no extra cost.

If plans go through, the Pullman Co. will contribute its share to the summer cut and is planning a $65 round-trip lower berth rate on an all-inclusive Western trip—against a normal $80.

With numerous important conventions scheduled on the Coast next summer, notably the Olympic Games at Los Angeles and the Shrine Conclave at San Francisco, the railroads look forward to a real impetus to travel through low rates, cooperative advertising.

Canadian Decision Hits Rail Wage Defense

THE railway wage issue was pushed forward this week by the Canadian Conciliation Board's recommendation of a 10% reduction in wages and Chicago & North Western's call on its union employees to accept a voluntary cut of 15%.

The Canadian decision may weaken labor resistance to wage cuts sought by railroads in the United States, as railway employees in both countries belong to the same unions. Two members of the conciliation board—Chairman James MacDonnell and Isaac Pitblado, the railroad companies' representative—favored wage reduction; the third, Dr. J. G. Hemmeon, representing the unions, opposed it.

If the Canadian unions reject the board's findings, which are not binding, it is probable that negotiations between managements and labor officials will be opened in an effort to reach a compromise. Failing an agreement, the unions' only recourse would be to strike, as the Canadian law provides no further machinery for settling wage disputes. Such a step, however, is considered unlikely. The wage proceedings have been friendly throughout.

A 10% wage cut would save the 2 Canadian lines a total of about $5 millions a year, it is estimated.

The Chicago & North Western's wage cut proposal came unexpectedly. Other carriers had decided to defer action until after the railway union meeting in Chicago Dec. 8.

Douglas County Home, Omaha, Nebraska. John Latenser & Son, Architects. Natco Vitritile furnished by Coates Mfg. Co., Kansas City, Mo.

ALL OVER THE NATION *Natco* VITRITILE

SAVES · SERVES · PERPETUATES

ADDED to the general advantages of fire-safety, permanence, ease of laying and artistic possibilities coming from the range of lovely shades and colors, Natco Vitritile  offers specific and unique advantages that have led to its use in an immense variety of applications, all over the nation. Hospitals  have used it because of its sanitary qualities. Schools  gymnasiums  waiting rooms  have used it because of its freedom from maintenance. Restaurants  hotels  dairies  and food industries in general use it because of its ease of cleaning. Laboratories  use it because of its resistance to chemicals and corrosion. Substations  and garages  use it because oil, grease, and dirt do not harm it, can be easily removed . The list could be expanded almost indefinitely; for Natco Vitritile, with universal appeal, has almost universal application.

Apply the formula—cost plus maintenance divided by service—and Natco Vitritile offers economies that amaze prospective users. The Booklet, "The Present Dollar" discusses building economies and economics in a thought-provoking way. May we send you a copy?

NATCO
THE COMPLETE LINE of STRUCTURAL CLAY TILE

NATIONAL FIREPROOFING CORPORATION

General Offices: Fulton Bldg., Pittsburgh, Pa. Branch Offices: New York, Chanin Bldg.; Chicago, Builders Bldg.; Philadelphia, Architects Bldg.; Boston, Textile Bldg.; Washington, D.C., National Press Bldg., Birmingham, Ala., Martin Bldg. In Canada: National Fire Proofing Company, of Canada, Ltd., Toronto, Ont.

The largest concern in the world manufacturing a complete line of Structural Clay Tile and Underground Clay Conduit.

Wants Employment Reserves To Stabilize Workers' Income

A COMPREHENSIVE plan for employment stabilization in individual companies which is effective, economical, and widely applicable, was described for the American Society of Mechanical Engineers, in meeting in New York this week, by James W. Hook, president The Geometric Tool Co., New Haven.

Perhaps its most important feature is its recognition of the different types of unemployed and of the varying degrees of responsibility which employers have toward each. Mr. Hook finds that: (1) about 25% of the total unemployed are unemployable; (2) about 35% are unstable, nomadic workers who fill seasonal employment gaps but neither desire nor are able to hold permanent jobs; (3) the remaining 40% are stable, loyal workers, settled in their habits and willing to work.

Where Responsibility Rests

Responsibility for the first group rests with society as a whole, Mr. Hook says. The second group is the mobile part of the national labor supply. It is of major importance to industry as a whole but no single employer can be charged with complete responsibility for his share of this class of unemployed. Forward planning of public works offers the best solution for employment of this nomadic group, Mr. Hook believes.

The third group—the stable workers—he finds the direct responsibility of individual employers and urges that each employer set up reserves during good years to maintain their incomes at some fixed proportion of normal during prolonged periods of slack work.

1923-1929 Experience

In his own company, he has found that if 0.75% of the payroll had been set aside during 1923 to 1929 inclusive, it would have provided a reserve from which the incomes of all stable workers could have been maintained for 52 weeks of short-time work at 80% of normal for workers with dependents and at 60% of normal for those without. While these figures might vary for other plants, Mr. Hook is convinced that, under no reasonable circumstances, should reserve payments be particularly burdensome to any well-managed concern. He adds that the returns in improved employee morale would more than offset the expense.

The employment reserve should do 4 things, Mr. Hook says: (1) augment the income of stable workers during depression; (2) enable companies with seasonal work to maintain their wage bills for seasonal workers at 60% of the amount paid during the previous year; (3) pay dismissal compensation to stable workers who are forced out of employment through circumstances beyond their control; (4) pay premiums on group life insurance for all stable workers.

Wants Cooperation

Recognizing the need for widespread application of such a plan throughout any competitive group to avoid penalizing those who adopt it early, Mr. Hook suggests that cooperative action looking toward general adoption of employment reserves might be conducted through the U. S. Department of Commerce in a manner similar to that successfully used in simplification activities.

Although uniform plans should be adopted for any competitive group, centralization of reserve funds should be avoided, Mr. Hook believes, in order to provide more incentive to individual employers to stabilize employment so that their own reserves might be lowered, and also to prevent the credit stringencies which might result in times of depression should a single, large reserve fund be liquidated in order to make payments to employees.

Mr. Hook is strongly opposed to governmental action but, if it should become necessary to bring about universal adoption of stabilization measures, prefers it to take the direction of legalized and standardized reserves which would force industry to set its own house in order. He believes, particularly, that standardized reserve accounting and uniform costing methods throughout a competitive group would go far to eliminate the difficulties of price-cutting and other competitive methods demoralizing to industry.

Biggest Relief Fund May Not Be Big Enough

CONTRIBUTIONS to relief funds are pouring in faster and in greater amounts than ever before but many critics who should be competent still doubt that they will meet the severe needs of the winter.

The Association of Community Chests

& Councils reports 130 chest campaigns completed totaling $50 millions—15% above comparable 1930 figures. About 200 campaigns are still to be completed; will not raise the total above $150 millions. Communities without chests may raise $100 millions, making total private funds $300 millions.

Only about 40% of community funds are normally used for unemployment relief, so that less than $200 millions will be available. If the normal ratio prevails of 75% public funds to 25% private subscriptions for relief, public appropriations will leave the total under $800 millions.

The American Federation of Labor estimates 6 millions unemployed now and 7½ millions in January. Loss of income for these unemployed persons during 1931 will total $12 billions. That is why the federation and numerous social and welfare workers seriously question whether $800 millions is adequate relief.

The recent optimistic report of Mr. Gifford to the President that virtually all states and communities are laying plans for meeting relief problems has been severely criticized on the ground that planning for relief and providing for relief are different things; that many communities have no definite information regarding the extent of unemployment; are planning inadequate measures.

Jobless in New York To Compile Directory

DEVELOPMENT of new unemployment relief measures grows apace throughout the country as approaching winter emphasizes the urgent needs of jobless workers and their families.

The Wisconsin Manufacturers' Association declared, 207 to 2, in favor of a voluntary unemployment reserve fund; will engage an expert to formulate such a plan for adoption by members. Action was precipitated, it is reported, by fear that the special legislative session called by Governor LaFollette otherwise would adopt compulsory insurance measures.

Some 100,000 full working days of employment will be given New York City's jobless in the compilation of a directory of the greater city under the direction of R. L. Polk & Co. The Emergency Unemployment Relief Committee will organize the work; expects to obtain additional relief funds from advertising revenues from the proposed publication. New York has no city directory now.

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The best way to be heard in a gale is to shout. Scatteration of advertising effort in a large number of publications with small space in each usually means waste and ineffective advertising. Many people are reached but few are impressed.

This and other guides to advertising effectiveness are contained in our booklet, "Industrial Advertising At Work." We will gladly send you a copy on request.

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Business men, industrialists and engineers—600,000 of them—regularly read the McGraw-Hill Publications. More than 3,000,000 use McGraw-Hill books and magazines in their business.

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Electrical World
Electrical Merchandising
Electrical West
Power

are on the job

how about your advertising?

The heads of American business are wintering at their desks this season. "Absent treatment" won't produce profits today. So these executives have rolled up their sleeves and are hard at work.

This makes an opportunity for those who sell to business and industry. To-day the men who hold the purse-strings are "at home" to your sales efforts. They're busy looking for ways to cut costs and increase sales. They're taking stock of their plants, their methods, their equipment. They're ready to listen to suggestions that will help turn red ink into black.

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Business paper advertising offers a direct route to your prospects. By elim-inating waste circulation, it helps every advertising dollar bring home its full quota of sales.

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Aviation

Textile World

Factory and Industrial Management
Maintenance Engineering

The Business Week
System

Farm Board Will Survive Critics Of Its Huge Losses, Big Salaries

Cost of the experiment so far is $350 millions, but defenders say it was worth while

RESULTS of the second year of Farm Board efforts to aid agriculture were revealed last week before the Senate Agriculture Committee, holding hearings on modifications of the Agricultural Marketing Act and further farm legislation to be offered Congress.

Chairman Stone, amid caustic questioning of committee members and attacks on Board policy by outside witnesses, presented the Board's second annual report, offered a frank and modest defense of its operations and admitted that they had been cursed by hard luck, like everyone else during the past year. Farm organization leaders stood by fairly solidly in support of the Board and opened their expected demand for its strengthening by the equalization fee or debenture plan.

Farm Board critics found ample ammunition for attack in the financial results of the Board's stabilization efforts, fairly fully exposed in its report and in supplementary statements by Stone. On their face, the figures show that, unless wheat and cotton prices rise rather sharply and soon, the Board will be practically busted by its futile effort to check the decline beginning in the fall of 1930. It is out of the stabilization business for good, and must soon be out of the co-op banking business, unless it gets more money from Congress, which is most unlikely; yet it may need some to meet its obligations.

Wheat Cost $1.17

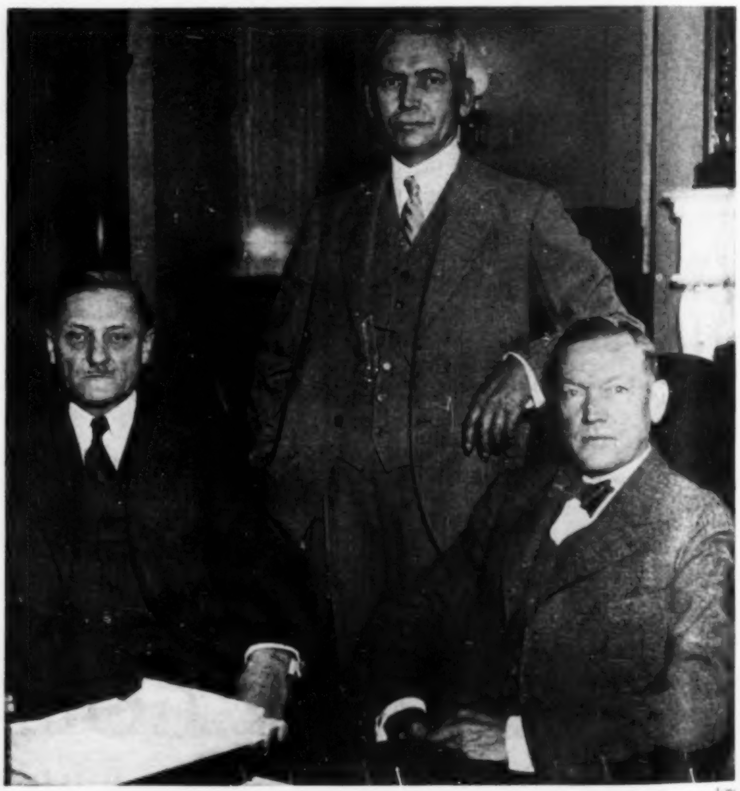
The Board, through its stabilization corporations, had on its hands Nov. 1, 189,656,187 bushels of wheat which cost it, up to that time, on the average $1.17 a bushel, or $222 millions; of cotton, 1,310,789 bales at an average cost, with carrying charges, of about 18¢ a pound, or $120 millions; a total investment in these two products of $342 millions. Its chief other "asset" was a total of outstanding loans to co-ops amounting to $109 millions on June 30. In addition it had about $2 millions of uncollectible notes and uncollected interest due from co-ops. The total of all these items alone, disregarding investments in wool and grape stabilization, is $453 millions out of the $500 millions the Board got from the Treasury. This leaves a surplus of less than $50 millions with which to continue business.

The wheat and cotton holdings, assuming they could be sold at current market prices, are worth about $100 millions for the wheat and $44 millions for the cotton, or $144 millions. If the outstanding collectible co-op loans are taken at their face value, and the working surplus of $50 millions is assumed, the current assets of the Board amount to about $303 millions. Against this it had on June 30 liabilities amounting to about $158 millions, made up of bank borrowings by the stabilization corporations of $88 millions for wheat and $33 millions for cotton and commitments of nearly $28 millions to cooperatives for further loans. Net assets resulting from two years' stabilization efforts and cooperative organization financing, about $145 millions out of the half billion dollar revolving fund. Thus the cost of the experiment so far may be counted as about $350 millions.

Stone's testimony and his annual report put up an appealing and not altogether unimpressive defense of this expenditure. The paper losses due to depreciation of the wheat and cotton holdings—about $178 millions—of course make no worse showing than the investment accounts of most banks and other institutions and can be blamed on hard luck. The stabilization operations were undertaken, Stone says, to save the rural banks and business concerns that might otherwise have collapsed.

Had Some Effect

The Board report attempts to show that they did have some effect in cushioning the decline in domestic prices, especially in wheat, which was kept on the average 10¢ above the Liverpool world price from November, 1930 on, whereas normally the Kansas City price is about 25¢ under Liverpool. The complaint that this only checked exports and left the U. S. holding the world surplus is met by the contention



"FRANK AND MODEST"—*James C. Stone, chairman, explained Farm Board policies simply and fully to the Senate Agriculture Committee of which Charles L. McNary (right) is chairman. Standing is Carl Williams, member of the Board representing the cotton-growers*

that foreign sales of wheat and flour made about as good showing as could be expected in face of a world-wide depression. Besides, the Board did something to facilitate flour exports by selling wheat to millers at the world price.

Although the Board can't prove it, and insists that no one can accurately estimate the net cost, it does make a fairly good case for the contention that its stabilization efforts were of some benefit to farmers. They did help to make a bad situation easier, but nothing could fully offset its effects.

A Confirmed Skeptic

Nevertheless, the Board has emerged a confirmed skeptic about stabilization. It says that "stabilization operations can not maintain prices continuously. So long as surpluses continue to pile up, artificial measures can only temporarily offset their effects. . . . For a limited period they can shield producers from the depressing effects of a surplus and thereby give them an opportunity to start the necessary adjustments in production. If they were accompanied by vigorous changes in production, the surplus situation could be corrected without subjecting producers to extremely low prices."

But on voluntary production control the Board is also pessimistic as a result of its experience. It "has attempted through education and publicity to bring about desirable changes in production. To date, however, farmers have not made sufficient response to the appeals."

Not So Candid Here

The Board therefore rests its case for continuation upon its work outside the unfortunate experiment in stabilization and production control propaganda. It presents an impressive picture of the scope of its many-sided efforts to speed up and strengthen the cooperative organization of agriculture, but it is somewhat less candid about some aspects of this than it is about its stabilization operations, and does not expose some of the seamy sides of cooperative politics. It makes some fundamental and constructive suggestions for the practical development of a national land utilization policy, and is obviously anxious to turn its attention to long-term problems of agricultural planning.

Whether it will be allowed by Congress to content itself with its essential functions as a guiding and planning agency for agriculture remains to be seen. The political farm, organizations will try to tack some form of subsidy scheme—the equalization fee or debenture plan—to its functions, but will probably fail.

There is almost no chance that the

Board itself will be scrapped. The co-operative organizations are solidly back of it in principle, and are potentially a powerful political machine made up of 105 associations with over a million members which have participated directly or indirectly in Farm Board loans. The real fight over Farm Board policies —if any—is likely to center in its function as a co-op banker.

The large salaries paid to some officials of its subsidiary corporations—$75,000 to Mr. Creekmore of the Cotton Cooperative Association, and $50,000 to Mr. Milnor of the Farmers National Grain Corp., with $20,000 to the general counsel of the Board, aroused some cynicism among the senators and may make ammunition for Board enemies in the coming session. But fundamental changes in Farm Board functions seem unlikely.

Bankers, Not Legislators, Will Cut Cotton Acreage

INDICATIONS point to a substantial reduction in the 1932 cotton crop. This will be due more to the unwillingness and inability of bankers to finance a large crop than to the efforts to reduce the crop by law. Adherence to any cotton plan that contemplates a compulsory reduction of acreage is not regarded as practical because of the difficulty of enforcement.

A census showing the amount of cotton grown this year is essential to any percentage reduction plan but no preparation for such a census has been made. Many fields used for cotton this year already have been ploughed under. To take the census and to check up on the acreage would require an army of employees. The states relish neither the expense involved nor the unpleasant task of dealing with those who will insist on planting as they please.

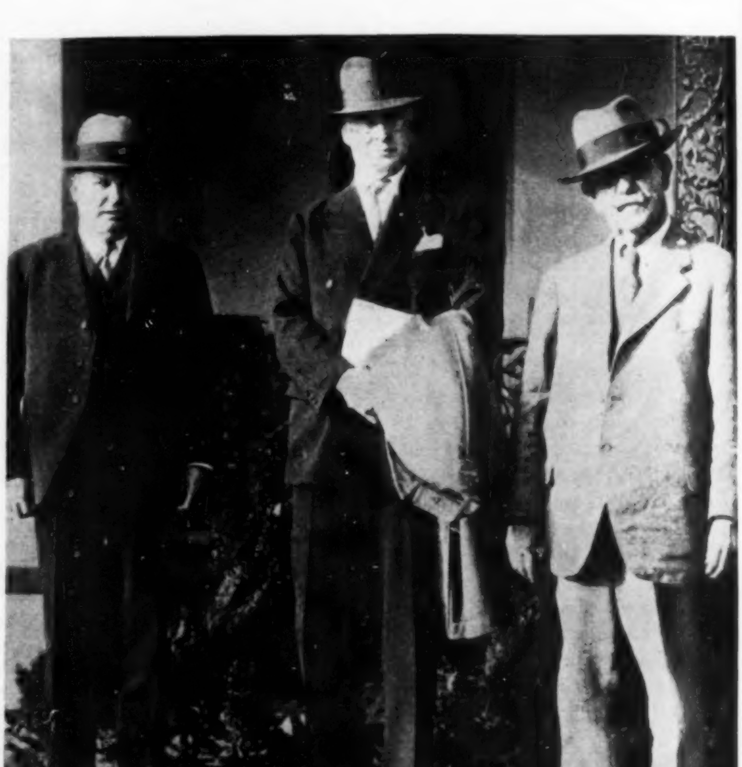
Think South Aroused

The Federal Farm Board thinks great good has resulted. Its members do not expect any particular schedule to be followed in planting but they do believe the South is aroused as never before to the need of keeping production more nearly in step with demand. Heretofore, most of the merchants and bankers who advance money or supplies to farmers have insisted that their efforts be concentrated on the cash crop. As a result of drouth loans, the small farmer has learned the advantages of raising his own food and feed. This practice has been permanently implanted. Even the local merchants and bankers are likely to encourage it in the future. That alone will take many acres out of cotton.

The agreement of Southern bankers to withhold enough financial support to require a reduction of at least one-fourth in the 1932 crop is expected to be more effective than will be any action taken by the legislatures. That agreement was made with the understanding that the Farm Board will hold its 1,300,000 bales of cotton for another year if the acreage is shown by the planting report, to be issued July 8, 1932, to have been "substantially" reduced.

All of the cotton-producing states, except Alabama, have indicated their intention of following the Texas plan in principle. In effect that plan provides for a reduction of 50% in production. Louisiana and South Carolina were the only states to adopt no-1932-crop laws. The advantage of that plan is the ease with which it could be enforced but it aroused an opposition that could not be broken down. The no-crop plan would have disrupted the financial and business structure of the South and would have created a stupendous unemployment problem.

The 1931 cotton crop, estimated at 16,903,000 bales, was grown on 40,889,000 acres.



Underwood & Underwood

"CUT COTTON ACREAGE"—*Bernard M. Baruch (center), conferring with Governor Blackwood of South Carolina (left) and Senator Smith, called for "prompt and unified acreage reduction as an emergency expedient"*

Bootlegger May Yet Supply Mince Pie, Plum Pudding

FOOD and candy makers are much perturbed by the decision of Judge Fitzhenry of Federal District Court at Springfield, Ill., in which he denied the right of the U. S. Commissioner of Industrial Alcohol to issue permits to bakers and others for the use of liquors.

This is the first adverse decision from a district court since prohibition went into effect. Heretofore, manufacturers requiring liquor for their products, who were using it before prohibition, have continued its use under permits.

The industry sees no justice in the decision, but rather the start of a drive on all borderline liquor uses instigated by the Missouri decision banning the sale of Vine-Glow, popular home-made wine product. Food technicians point out that no one could possibly get drunk on mince pie or plum pudding; that in cooking the alcohol content of the liquors used is dissipated, leaving only the characteristic flavor.

Judge Fitzhenry dropped another bomb when he pointed out that use of liquor under a permit is no defense for a prosecution for violation of the prohibition laws. This immediately affects the quality if not the output of mince pies and plum pudding on the very eve of Christmas and New Year feasts.

Teeth and Appendices Removed on Instalment

Preferred Service Corp. has been organized in Detroit as a holding company to form and hold interests in local finance companies which will specialize in financing fees of medical and dental patients. The man who hasn't money for professional services can borrow the full amount of the fee and pay it off in instalments running over a year's time, at 6% interest. Other earnings of the corporation are to be derived from service fees paid by doctors, whose fees thereby are expedited and assured. The project is approved by the Wayne County (Michigan) Medical Society and Detroit District Dental Society. Most of the corporation's stock is being subscribed by professional men.

Small-Unit Industries Signal for an Upturn

"As a result of our investigations, we have established that in most areas served by our system, small-unit industries are using more energy than last year. This gain appears to be more pronounced on the Atlantic seaboard and other regions where industries making consumption goods, such as textiles, foods and shoes, are important."

Reporter: Martin J. Insull, president of the Middle West Utilities Co.

"Investigations": Surveys just com-

pleted by operating executives in the 31 states, extending from Maine to Texas, from Florida to North Dakota, that are embraced in the Middle West Utilities System.

Significant? "It is common knowledge that heretofore revival of business has always made substantial progress before it has been recognized. One reason is that revival almost invariably comes first in small-unit industries—and usually in industries catering to the retail consumer. But conventional business statistics embrace only fragmentary information from such industries. The larger corporations, the basic industries . . . contribute most of the usual statistical data upon which estimates of the state of business are based."

New Process Aims at Wider Use for Ramie

ANOTHER attempt to prepare ramie cheaply enough to make it commercially available for its many possible uses has been completed by Universal Fibre Corp., New York. The new process, developed by Dr. Samuel S. Eveland, offers, according to some chemical and textile experts, greater promise of success than any yet developed (*BW—Oct5'29*).

Most textile men, however, await further developments before giving approval. For many years a method for doing cheaply by mechanical and chemical processes what is now done largely by hand in China, has been sought without success; millions of dollars have been lost in abortive development work.

Most encouraging report on the new process comes from Proctor & Schwartz, Inc., 100-year-old Philadelphia textile machinery makers, who have been testing ramie yarn for 20 years and assert the new product is the first which has strength, uniformity, and durability and neither deteriorates nor cracks.

Universal Fibre reports that the new ramie, as yarn, will make as fine linen-like fabrics as flax; as pulp, will make paper of unusual strength; that it is high in alpha-cellulose used in making lacquer and other nitro-cellulose products; that it can be substituted for cotton in asbestos brake lining, in rayon manufacture, and for various other purposes.

Ramie is the oldest and one of the strongest vegetable fibers known. It has been used since pre-historic times; ancient Egyptians used it for wrapping mummies. It is native to China, India, and the East, but can be raised in any

climate where cotton thrives. In the past it has been used chiefly as an adulterant of wool and linen; its principal use now is in the manufacture of fabrics for gas mantles.

Lyster H. Dewey, U. S. Department of Agriculture, and a leading world authority on plant fibers, believes that ramie might well be sold on its own merits. Its great strength, which increases when it is wet, its resistance to deterioration, and other advantages would make it an important textile material could it be prepared cheaply.

"New Conception" of Land Use Demands That Pioneering Pay

THE federal government, like the oil industry (*BW—Nov25'31*), has a "new conception" of land matters. It is getting behind action to block new homesteading and reclamation projects "until justified by the agricultural needs of the nation." Translation of that principle into law will mark the end of the pioneering era in America.

At a 3-day conference on land utilization in Chicago, called by Secretary Hyde in connection with a meeting of the association of land-grant colleges and universities, Nov. 19-21, steps of far-reaching importance were proposed. In the fact that the conference was called on short notice is seen indication that the Administration wants to get something concrete under way before Congress convenes. Secretary Hyde stated at the close of the session, "Certain of the recommendations adopted can be put into immediate use."

Sold for Taxes

Tax delinquency and acute agricultural distress are the immediate urges to action. Land is coming back into government ownership so rapidly that something has to be done about it. In Florida, for example, more than 20% of the land was sold to the state for taxes in 1929.

Setting up "at an early date" of a National Land Use Planning Committee was authorized. It will have 15 members: 5 from the Department of Agriculture; 3 from the Department of the Interior; 1 from the Federal Farm Board; 1 from the Federal Farm Loan Board; 5 from the land-grant colleges. A National Advisory and Legislative Committee on Land Use, made up of a larger number of representatives from leading farm and business organizations, was provided for too.

Among resolutions passed was one which recommended that private land development enterprises be licensed and regulated. This would apply to land development the idea behind the "certificate of convenience and necessity" already in effect in the field of transportation and public utilities.

The hand of the government is seen in the fact that resolutions adopted are along the line of the 10-point program for dealing with abandoned marginal lands, previously worked out by Dr. L. C. Gray, in charge of the division of land economics of the Department of Agriculture. These 10 points include: Readjustment of the tax burden and methods of taxation to conform to uses for which land is adapted and to tax-bearing ability of each class of land; encouragement of the evacuation of sparsely settled areas; zoning against resettlement of submarginal lands that have been abandoned; discontinuance of attempts to sell tax delinquent lands unsuited to private utilization; consolidation of areas acquired by tax delinquency either by exchange or purchase; regrouping of units of local government.

To do this will take years, Dr. Gray admitted. A few states, however, have taken first steps. A clear-cut federal program would speed similar action by others.

Fewer Farms, More Acres

Secretary Hyde sees "more hope of success in slamming shut a few doors than in recapture of acreage." Most land expansion has taken place in 4 directions, he points out: drainage, irrigation, clearing of forests, and dry land farming. "The extent of that expansion is not generally recognized," he explains. "There were 84,000 fewer farms in 1930 than in 1925, but 15 million more acres in crops. There are both pathos and problems in the fact that the 366 million acres planted to crops in 1930 were 55 million more than in 1909, and larger even than the wartime peak of 1919.

"If we could have prevented the entry of the submarginal portion of those 55 million acres what a different story we could write for American agriculture!"

Rushed into Overproduction, Newsprint Crawls to a Merger

Even with the banks pushing, the industry finds obstacles difficult to surmount

RUMORS of gigantic mergers in the newsprint industry, current for many months (*BW—May13'31*), are again attracting attention following the recent formation of a committee of Canadian bankers and business men to determine the actual possibilities of such a move. E. W. Beatty, head of Canadian Pacific Railways, is reported to be taking an active part in current negotiations. There are so many difficulties ahead, however, that best informed observers see no immediate prospects for consummation of merger plans.

Banks Are in Deep

Chief impetus behind the latest activity comes from banks which, during the last year or two, have become heavily involved in the industry and are becoming a bit worried as to how and when they can get out. A compilation by *The Financial Post,* Toronto, estimates that during 1930 banks loaned 11 major Canadian newsprint companies (not including International Paper Co.) nearly $40 millions. Continued absence of profits, the recent receivership of Minnesota & Ontario Paper Co., the reorganization of Canada Power & Paper Co. whereby capital charges were reduced about 50% and its bond interest payments postponed until 1936, have not increased bankers' confidence that the industry will work itself out.

Its troubles are like those of many other industries: they arise chiefly from excess capacity. Recovering from the 1921 slump, newsprint mills were operating at or near capacity by 1926 with prices which assured profits to nearly every mill whether efficiently operated or not. It was a fertile field for promoters and they rushed in, built new plants. Meanwhile, provincial governments auctioned off huge tracts of forest land on condition that pulp and paper mills be built and placed in operation at once.

Capacity, 4.7; Output, 3.8

Result is that total newsprint capacity of Canadian mills is now over twice that of 1926—4.7 million tons a year compared with a total output in 1930—a reasonably good newsprint year—of 3.8 million tons.

The usual competitive turmoil following this too rapid development jeopardized profits, even the capital structures of some units. Various attempts were made to remedy conditions, first through the Canadian Newsprint Co., formed as a selling agency for large Canadian mills. Following the break-up of this organization after International Paper Co. won the valuable Hearst newsprint contract, the Newsprint Institute was formed. This, in the opinion of American publishers (chief newsprint buyers) and of the Federal Trade Commission, was a price-fixing combine. Its attempts to raise prices were abortive and when provincial governments stepped in to help the higher-price cause, it virtually folded up.

International Dashed Hopes

Final hope for organized price increases was dashed last spring when International announced a fixed price schedule to stand until the end of 1936. Retroactive to Jan. 1, it reduced New York delivered newsprint prices from $62 to $57 a ton; adjusted prices to other markets accordingly. This price will be the maximum until the end of 1932. From that time until the end of 1936, International's prices will not be above $62 a ton and its average price from 1931 through 1936 will not be above $57.

The importance of International—largest paper manufacturing concern in the world and a leading newsprint producer—makes it difficult for the remainder of the industry to depart from the I. P. price schedules. Thus there remains little hope of price increases to help the situation although further expansion of the industry before 1936 seems to be effectually stopped.

In fact, reports are current of a further slash of 1932 prices to $50 to meet increasing competition from Scandinavian newsprint mills which are favored by the fall in currencies.

The other possible solution is to increase output, thereby reduce unit costs. There being no apparent source of new newsprint markets, many leaders in the industry have become resigned to mergers to close less efficient mills, concentrate on low cost ones.

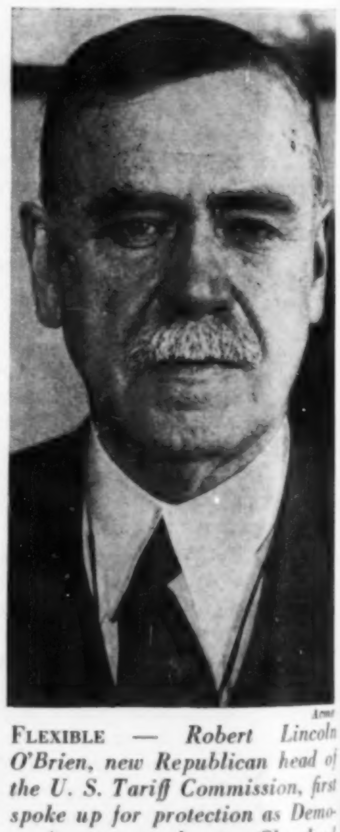
Current merger discussions involve the Canadian properties of International Paper Co.; Consolidated Paper Co. (reorganized Canada Power & Paper Co.); Minnesota & Ontario Paper Co.; Abitibi Power & Paper Co. Other major Eastern producers, usually included in merger rumors and whose cooperation is deemed essential to give the proposed consolidation control of its markets, are Price Brothers, St. Lawrence Corp., and Anglo-Canadian.

Newsprint producers of western Canada rarely enter the Eastern markets; their cooperation will not be required. Large Eastern producers not being considered in rumor talk include several with controlled outlets such as Ontario Paper Co., controlled by *The Chicago Tribune* and Spruce Falls Pulp & Paper Co., owned jointly by Kimberley-Clark Corp. and *The New York Times.*

Estimates Don't Agree

Tremendous difficulties face the negotiators, of which evaluation of properties is probably the worst. Estimates of future values of present timber and water power holdings, of existing contracts, of security values, offer unusual obstacles in getting agreements to a plan which, if successful, would form one of the world's largest industrials.

Not all interested observers favor a



Acme

FLEXIBLE — *Robert Lincoln O'Brien, new Republican head of the U. S. Tariff Commission, first spoke up for protection as Democratic stenographer to Cleveland*

merger. Canada controls one-third of world newsprint production. The generally aggressive attitude of Canadian newsprint interests toward American publishers has already caused the latter to expand their purchases from Scandinavian and American mills. Threat of a merger is expected to send them farther afield; to urge development of Alaskan timber resources and of way to utilize southern pine.

The Financial Post quotes "responsible observers" as saying that the Canadian newsprint industry is already over-merged; that it numbers too many unwieldy units. Pointing to the universal failure of cartels in wheat, coffee, silk and many other commodities, they maintain that the sound course is to let competition discover just where is efficiency and inefficiency; just where is reasonable bond or share capitalization and where water; declare that a merger will not cure the fundamental disease.

O'Brien, New Tariff Board Head, Was Once a Free Trader

ONCE an active and ardent supporter of Grover Cleveland and his free trade policies, Robert Lincoln O'Brien, new head of the U. S. Tariff Commission, has become a believer in "substantial tariffs." "Our business machinery is geared to a tariff," says Mr. O'Brien, "and moreover, it is necessary to provide for disparity in labor costs." He is a strong believer in the adjustment of tariff rates scientifically by fact finding and judicial decision.

In Mr. O'Brien's opinion the differential between labor costs in the United States and in Europe has become greater than is generally realized.

Grover Cleveland noticed young O'Brien's active work among college students during the campaign, and named him stenographer and typist for the President. When Mr. Cleveland was dictating his speech of acceptance he said in reference to the Homestead strike: "Scenes are enacted in the very abiding place of protection which mock the hopes of the toiler." His new stenographer suggested that if he would insert the word "high" before the word "protection" that it would not commit him absolutely as against protection under all conditions. That was Mr. O'Brien's first contact with the tariff.

Bryan In, O'Brien Out

It was on the issues in the first Bryan campaign that Mr. O'Brien left the Democrats and since then has been a rather orthodox Republican. He recently has headed the Middlesex Club, the leading Republican organization in Massachusetts.

The place went to Mr. O'Brien because Louis Liggett, Republican National Committeeman for Massachusetts, thinks he is one of the country's ablest men. He believes a newspaperman with a world background ought to do a good fact-finding job on the Tariff Commission.

Friends of Mr. O'Brien say his ability as a speechmaker has been an important factor in his rise, but they do not mean to discount his ability as a financier, which he has demonstrated strikingly in the publishing business and on the stock market.

Mr. O'Brien was born at Abington, Mass., Sept. 14, 1865. He was graduated from Harvard in 1891. He was long Washington correspondent of the Boston *Transcript*, in 1906 became its editor. In 1910, he took over the management of the *Herald* and *Evening Traveler*, and built them into a very valuable newspaper property. He still is a large stockholder. He has been active in the affairs of the Unitarian Church.

Small Home Building Revives in Northwest

CONSTRUCTION of single-family dwellings, considered by many an extremely important index of business trends, seems to be reviving in the Northwest and Mid-West.

Northwest Bancorporation of Minneapolis, with large bank holdings in 10 states, has completed a survey showing an increase of 11.8% in number, 9.5% in value, of homes built in the first 10 months of 1931 compared with the similar period of 1930.

Data were collected from 32 cities of 10,000 population or more in Minnesota, Western Wisconsin, Iowa, Nebraska, North Dakota, South Dakota, Montana, Wyoming, Idaho, and eastern Washington. The gains were made in Duluth, St. Paul, Minneapolis, Cedar Rapids, Des Moines, Mason City, Ot-

tumwa, Omaha, Grand Forks, Sioux Falls, Cheyenne, and Boise. The other 20 cities studied showed declines.

In first 10 months of 1930 the 32 cities studied built 2,954 single-family dwellings, value $11,989,000. In the corresponding period of 1931, the same cities built 3,305 single houses, value $13,128,000. Average cost per dwelling in 1930 was $4,058; this year, $3,972. But, owing to lower construction costs, the type of house built is considerably better this year than last.

Cotton Roads Must Now Battle Private Barges

SOUTHERN railroads may have stopped the government-owned Mississippi barge line—temporarily, at least—from increasing its cotton traffic through lower rates (*BW—Nov25'31*), but more cotton is moving down the river.

Taking their cue from the federal line, private barge operators have cut their rates to about the same level that the government tried to establish. The result is that more cotton shippers are turning to the water route and the volume of river-borne cotton is expected to reach record proportions this season.

Leipzig Offers Free Trip To Bring Buyers to Fair

THE free trip to Leipzig is bona fide. Leipzig Trade Fair headquarters verifies the bargain announcement, fills out details.

Every foreign buyer attending the spring session—March 6–16—of this oldest of international trade fairs will receive a cash refund of his total transportation costs provided he places orders at the Fair, for delivery not later than the next Fair, equal in value to at least 100 times the cost of his transportation.

There is no catch. The proposition works on the round trip fare from Tokyo or San Francisco or Cape Town, to Leipzig, Germany. It applies to first class ocean fare, railroad plus Pullman fares in the United States, second class railroad fares in Europe.

And if the total of the buyer's orders does not approach 100 times the cost of transportation, he can still claim a refund of 1% of the value of his orders.

It is a year for bargains. Old, dignified, the Leipzig Fair is a profitable business proposition for Germany. Returns are worth the bargain offer.

Business Abroad—Swift Survey Of the Week's Developments

Uncertainty over the course of sterling, tariffs, the reparations–commercial debts conferences holds world attention, offers no cheer. . . . Anglo-French moves are the key to immediate developments. . . . France is being undone by multiplying tariffs against luxuries, is feverishly maneuvering for sterling stabilization and advantages at pending conferences. . . . Britain's outlook has soured. . . . Germany is tense. . . . Factions in Manchuria are settling down for winter negotiations. . . . Undercover projects may break soon, change the whole aspect.

Europe's Fears Again Overcome Its Hopes

EUROPEAN NEWS BUREAU (*Cable*)—A wave of pessimism swept over Europe this week leaving conditions very unsettled. The approach of the reparations conference, attended by pessimistic reports from Germany, Laval's unexpectedly intransigent statement of French policy, and the priority conflict between reparations and private debts have been the principal causes. To these unfavorable influences can be added the spectacular fall of sterling, dislocation of trade as a consequence of Franco-British tariffs and Central European exchange embargoes.

Securities generally have sagged, even in London where depreciation of sterling and the imposition of tariff protection normally should have led to sharp advances. Commodities, nevertheless, continue to show resistance, though with a degree of irregularity, with nonferrous metals favored by the new cut in tin production and by Belgian adherence, finally, to the world copper plan. The statistical position of cereals continues to be encouraging.

Problems Exaggerated

Momentary pessimism may continue but it will not be surprising if more sanguine views prevail before the end of the week as it becomes more generally realized that some current uncertainties perhaps are being exaggerated. The German situation is unquestionably critical though perhaps it is not as desperate as is represented by some. The French hopefully point to evidence of large German foreign deposits in neutral countries, the exact magnitude of which is unknown. Similarly, French policy on the priority of reparations probably will prove to be less stiff-necked than Premier Laval's statement led many to believe. It is not impossible that French insistence on unconditional payment may be modified during negotiations to an acceptance of at least part payment "in kind," and to a promise to reloan the remainder, with, even, French financing of German rawstuff imports for the manufacture of part of the payments-in-kind.

Tariff Bargaining

But difficulties in Anglo-French commercial relations, following the reciprocal tariff increases and rising losses from sterling depreciation, have raised new problems not easily solved and affecting not only France but a majority of the Continental countries. The British government, replying to Italian, French, German, and Dutch anti-tariff representations, has expressed a readiness to bargain, but meanwhile has not hesitated to promulgate a second, though more limited, list of duties including the announcement of a domestic wheat quota. It is probable that an Anglo-Continental tariff conference in December will work towards specific reciprocal concessions. England is elated that the tariff already has proved a powerful trade weapon.

Why Sterling Sagged

Meanwhile sterling depreciation, as low once as 33% below parity, is holding Continental attention. It is the consequence of a series of superimposed causes. Foreign balances in London, recently estimated at $1,600 millions may be further reduced since the inflatory increase in the fiduciary issue is viewed uneasily. Also there is some evidence of a renewed flight of domestic capital on the eve of the heaviest income tax payment in the country's history. Continental anti-sterling speculation was quick to seize the advantage but the British suspicion of a deliberate, organized French drive as an instrument to bring pressure to weaken the British priority claim for short term debts is certainly unfounded. The above circumstances have contributed, but sterling's sudden drop is due primarily to: (1) the flood of forestalling imports which probably added over $100 millions to normally heavy seasonal payments. Since imports scarcely yet have been fully paid for, this factor will continue to influence sterling for some time. (2) The breakdown of Anglo-Dutch negotiations, followed by the decision of the Bank of the Netherlands, hitherto withholding sterling reserves, to sell the government a part of these holdings (for use in redemption of East Indies government sterling loans redeemable in 1933) and dump the remainder.

Who Lost in London

The heavy losses of the Bank of the Netherlands, said to have been holding $60 millions of sterling, pales in significance when compared with the Bank of France whose sterling holdings are believed to be over $300 millions, whereof the loss of 33% depreciation exceeds $100 millions, compared to total capital and reserves of less than $20 millions. It is understood that government guarantee protects the bank against this exchange loss, or in other words against, otherwise, bankruptcy, but unless sterling recovers, the loss involves the government, already staggering under a strained budget, for a heavy new liability.

These circumstances, still generally unknown in France itself, explain the eagerness of French authorities to urge sterling stabilization at a higher rate, and also the nervousness over any possible loss on the $600 millions of deposits in the United States. Flandin's flying trip to London undoubtedly was occasioned by repercussions in France to British tariffs and sterling depreciation but apparently only has developed the fact that the British are not ready for any artificial stabilization, and instead desire to await the normal response of currency to the new economic conditions now created. Meanwhile, however, this policy risks the greatest of all dangers, the loss of domestic confidence in its currency which, in any country except England, would already have manifested itself but which hitherto has been avoided chiefly due to the lag in internal price reaction so that the public, as yet, has experienced only the inflationary benefit. But a wave of price rises attended by labor disturbances and currency inflation is now practically an early certainty.

Trade Channels Reopened

One hopeful development is notable. This is the spread of exchange clearing agreements between central European countries following the failure of the Prague general conference. These agreements are expected to permit at least

the purchase of a supply of indispensable rawstuffs, and thus relax the present trade paralysis. Also, with the collaboration of foreign creditors, a beginning has been made on reconstruction of the Credit-Anstalt, in Vienna, whose collapse precipitated the present inter-nation financial crisis. In contrast to all other Bourses, the Vienna Bourse has sustained its recent rally.

Fresh Worries Dilute Optimism in Britain

Falling sterling, worry over tariff retaliation, domestic unwillingness to buy—depress business. . . . Lancashire plans to lengthen hours, cut wages; strike threatens. . . . Anti-French feeling spreads.

Keystone

"BUY BRITISH"—*Britain uses gunpowder propaganda to stir up enthusiasm in the economic war. Here, the British lion contemplates the posters from the base of the Nelson column in Trafalgar Square*

LONDON (*Cable*)—Britain's buoyant optimism of 2 weeks ago is petering out. The tone a week ago was still good. At present the public is depressed.

Several factors are to blame. First is the decline of sterling. For a day it hung more than 33% below the old gold parity. Bankers were trying hard to be nonchalant about it, declared they plan to let the pound seek its level without artificial support. Importers were openly panicky.

Another factor for worry to the foreign trade was the way in which foreigners would react to the new Runciman duties. Threats from France were to be expected. But they may become more drastic than Britain anticipated. And retaliatory measures may spread.

British Pinch Pennies

But the factor immediately affecting the largest number of domestic business men is the way in which the public, high and low, has sealed its purse to all but absolute necessities since receiving the government's preliminary notices of the new income tax, due in January.

There are other worries. London is full of rumors that the solvency of several large financial houses depends on the solution of the German commercial debt problem. London is not too optimistic over the outcome of the coming conferences to re-survey Germany's capacity to pay.

Strike threats are once more in the foreground in Lancashire. Textile mill operators have notified workers that the present 48-hour working week will be terminated at the end of the year and the industry will revert to the 55½-hour week. Workers declare they will refuse to work the new schedule or to accept the wage reductions.

When the old 55½-hour week was the rule before the war, it meant that laborers had to rise at 5 a.m. in order to be at work at 6. At 8:30 there was a half hour breakfast period before workers returned to their looms until 12:30 when there was a 1-hour lunch period. Afternoon hours were from 1:30 to 5:30. Nominally the 48-hour week has been in effect since 1919.

London blames the weakness of sterling to the pressure of seasonal cotton and grain imports; to deliberate pressure on the pound by France in order to gain for Paris an advantage at coming conferences; and to fears on the Continent that there will be unwise expansion of the fiduciary issue.

The government is continuing its study of tariffs, ladling out new levies as they are formulated. Most recent batch includes a long series of wool, linen, pottery, and glass products, and special duties on off-season fruits and vegetables, and cut flowers (page 37).

Among the announcements from the Board of Trade of special interest to American exporters is the fixing of 25% as the necessary "empire content" for goods entering Great Britain from the Dominions in order to qualify on the duty-free list. This prevents the manufacture in the United States and the assembly only in Canada of American products destined for Britain.

New Taxes Add to Load On German Business

Further industrial recession probable. . . . Unemployment up. . . . Drastic new taxes on business in latest emergency decree.

BERLIN (*Cable*)—The relative stability of the production index for the 3 months ending with October at a level 17% off the 1930 average is not suggestive that the bottom has been reached. The rise of 220,000 in the unemployed for the first half of November, bringing the total near the 5 million mark, indicates the probability of a further recession. The complete uncertainty, politically and otherwise, of the next months is paralyzing trade.

Business also is discouraged over the prospect of new burdens coming from the fresh emergency decrees, including a double sales tax, the 8% reduction in official salaries, and a 10%, or possibly 12%, coupon tax on fixed interest bearing securities. The latter project is severely criticized since it is expected to increase the cost of capital to borrowers. The unofficial bond market has

reacted downward with the new world decline.

General business uneasiness is accentuated by the intention of the government to extend the recent moratorium to East Germany (largely farm debtors) to West Germany, which would be tantamount to a farmers' moratorium for all Germany. Already it has seriously endangered the entire structure of agricultural credit.

Reichsbahn Orders Steel

The only stimulus to business is the decision of the Reichsbahn to place $60 millions in additional orders, the main beneficiaries being the steel and machine-building contractors.

This lone favorable impression is offset by several adverse factors: (1) The increasing difficulties experienced by exporters in making collections, due to spreading exchange regulations in importing countries, may seriously affect the German balance of payments in coming months; (2) October public revenue is off 23% compared with 1930; revised estimates of federal revenue for the whole fiscal year disclose no provision for the additional deficit of $250 millions; (3) a new wave of failures, and fresh announcements of heavy company losses and dividend cuts.

British-Made Troubles Upset French Plans

Business and the government in a flurry over new British duties. Unfavorable trade balance likely to grow worse.... Heavy losses in new sterling slide lead to bargain offers to Britain.... Industry less active.

PARIS (*Cable*)—Momentarily England, not Germany, is engaging French attention on 3 counts: tariffs, falling sterling, and international debts.

The new British tariffs have brought the entire problem of tariff barriers to the fore in Europe. France, already suffering from a growing unfavorable balance of trade, is particularly perturbed. Hard times and depreciated currency in many countries have forced them to ban various imports. Usually luxury products are first to be hit. These products make up an important share of all French exports.

Frenchmen have bargaining power on their side. What they want now is an Anglo-French trade conference at which the whole problem of tariffs can be thrashed out. M. Flandin is known to have broached this subject during his recent visit to London but made little headway. But London is in a position to bargain too and once a new customs conference gets under way, it is to be expected that other European countries will be ready to sit in.

Europe Suddenly Tariff Conscious

At the Geneva discussions a year ago, as at the Imperial Conference in London, Britain lacked the bargaining power which the new Runciman emergency tariffs have already given her. Operating, they are already making Continental Europe extremely tariff-conscious. France for the first time is really uneasy, is extremely conscious that no less than 20% of her exports go to Britain, whereas she is only Britain's fifth best export market.

Gallic uneasiness is accentuated by the apparent unconcern of British authorities over the depreciation of sterling. The French do not share the British conviction that the recent spectacular slide is only momentary and due to transient factors. Nor do they believe it will be followed by an equal, if not greater, reaction as tariffs correct the balance of payments. Frenchmen are painfully conscious of the losses which these sporadic dips are costing the Bank of France (said to be holding from £60 to £80 millions) and private French banks, most of which have important sterling holdings.

The local situation continues to be one of gradually decreasing activity. October iron production was off 3%, steel 5%. Coal, protected by the new low import quotas, showed a gain. Registered unemployment, in France only an index of the total number of jobless, is increasing 10,000 a week.

Italy Faces Hard Winter With Firm Policies

Unemployment up, industrial activity down.... Gold cover improves. ... British duties affect Italian exports.

MILAN (*Cable*) — Rising unemployment, the continued decline in industrial activity, except in the rayon and aluminum industries, and weak prices characterize the approach of winter. Stocks have resumed stagnation after the powerful rally which followed the banking reorganization.

The government deficit of $12 millions in October brings the aggregate for 10 months to $58 millions, but the 10-month trade deficit is 61% less than the unfavorable record of last year.

The Bank of Italy continues to convert exchange into gold. Though the country's total reserves show a net decline, greater contemporaneous contraction of circulation has made possible a higher gold cover, now nearly 39%.

Britain's new duties are expected seriously to affect the export of woolens, hosiery, linens (where the Irish product is given preferential duty exemption), clothing, gloves, and perfumes. Contrarily, there is satisfaction over the new Franco-Italian convention granting an import quota at a preferred duty on Italian wines in exchange for a 250,000-ton export quota on French scrap iron, an important factor in Italian industry. Negotiations are also progressing with Spain and Germany for similar agreements.

Bond Defaults Cloud Latin-American Outlook

Bond defaults undermine faintly reviving confidence.... Chile likely to drop most accusations against Cosach. ... Argentina more confident despite price declines.

THE week's pessimism is not confined to Europe or the United States. South American bonds—5 separate issues—went into default, cast a shadow over Colombian credit, heretofore above the average.

Defaulting issues include City of Montevideo (Uruguay) 7s, State of Rio Grande do Sul (Brazil) 6s and 7s, City of Porto Alegre (Brazil) 8s, and Municipality of Medellin (Colombia) 6½s.

The Colombian municipal default was perhaps the least expected in New York. It involves service on nearly $11 millions of bonds outstanding in the United States. Officials of Medellin are reported negotiating with Colombia's Exchange Control Board for permission to remit interest under the firmly controlled restrictions on foreign exchange.

Uruguay Resorts to Barter

Uruguay is continuing exchange restrictions. To avoid operating in foreign exchange, the government is attempting to bargain abroad for army airplanes in exchange for an equal value of hide, wool, and meat products.

Rumors coming out of Chile indicate that accusations against Cosach (*BW—Dec2'31*) are likely to be far less drastic than anticipated at first.

Although it is admitted that some charges are likely to be made as a result of the broad attack in Congress, it is expected that no substantial modi-

fications are likely, since Cosach came into existence under constitutional law of the republic.

Argentina is again faced with a brisk export demand for grains but low prices. Securities trading is more brisk than for some time, with government bonds showing new strength. The wool market is active, but meat demand is weak, prices low.

Business in Brazil is slow though imports are picking up slowly due to low prices in Europe and the United States.

Prospect of Peace Encourages Far East

Manchurian affair on way to settlement. . . . Japanese domestic trade better. . . . South China recovers. Importers report best trade in 2 years.

NUMBED fingers and frosted toes may have as much to do with the lull in Manchurian hostilities as any panacea which has been proposed by the League of Nations. Whichever is responsible, the probability that the interval will be used constructively to patch a Manchurian peace has eased the outlook in the Far East.

Japan's immediate foreign trade outlook is not promising but the volume of internal business has improved. What the boycott did at the peak of its popularity in China is evident in October export figures. Shipments to China of cotton textiles totaled only 400,000 square yards in contrast to 46,000,000 in the same month last year.

South China Improves

Signs of improvement have appeared in South China, and in the Shanghai region imports and manufacturing are fair. Elsewhere the depression has not eased and crops are generally below average. Cotton production shows a decrease of 20%.

In order to maintain a liquid position, Chinese banks are curtailing credits to finance import trade, and the larger Chinese banks are requesting foreign banks and finance firms to rediscount their import paper. Money is extremely tight.

Shanghai importers experienced in November the best trading month in the last 2 years. Orders for piece goods and yarn are going to Britain, machinery and sundries to Germany, piece goods to Italy, and general orders to the United States.

India's foreign trade in October was above September levels but below October, 1930.

Copper Price Break May Do What Conference Couldn't

THE prospect of a copper restriction pact again looks bright following Katanga's decision to accept the compromise plan worked out at the New York conference a few weeks ago (*BW—Nov25'31*).

With the removal of this major obstacle, the other unsolved details of curtailment are not expected to cause any insurmountable difficulties. These concern marketing and the reluctance of some of the smaller companies to cut output to the same extent as the big producers.

Under the compromise plan, Katanga will be allowed to produce at the rate of 181 million lbs. of copper a year, of which 115 millions may be sold, the balance to be kept off the market until conditions improve. The other producers are to reduce their production to 26% of capacity, bringing the aggregate output controlled by the plan to about 55,000 tons a month.

Two recent developments undoubtedly had some influence on the Belgians' decision. One was the further break in the price of copper. The other was the Phelps Dodge Corp.'s notice of resignation from the Copper Exporters.

This organization embraces practically all of the American producers and refiners and many leading foreign copper interests, including Katanga. It was organized 5 years ago to bring stability to the industry through control of the export market. Its work in maintaining a steady price level was highly successful until 1930. Then came the break of the 18¢ pegged price. For a year and a half, the Copper Exporters has been forced to make consecutive reductions in its quotations.

There has been considerable dissatisfaction with the way Copper Exporters has handled the situation. Its price policy and method of fixing sales quotas have come in for sharp criticism. But, somehow, a breakup of the organization was avoided.

The first threat to its existence came at the end of last week with the announcement that Phelps Dodge would withdraw. No reason was given, but it is apparent that the collapse of the copper conference was the cause. Rumors immediately began to spread that other dissatisfied producers might also resign. So far, however, no other company has served notice.

It is not known what Phelps Dodge will do, now that the chances of curtailment have been revived through Katanga's acceptance. Its resignation does not become effective for 30 days. During this interval it is quite possible that the company may reconsider its decision, agree to remain in the Copper Exporters.

No new general conference to complete the curtailment program is expected. The remaining details will probably be arranged at producers' meetings in New York and in Europe.

Britain's First Duties Hit Others, But Wheat Quota Will Hurt Us

EUROPEAN NEWS BUREAU (*Cable*)—Britain's first batch of emergency duties (*BW—Dec2'31*) helped the manufacturers, hit hard at German, French, Swedish, American exporters.

A second group—dutiable after Dec. 4—hit 11 more manufactured items including glass, wool, linen, and jute manufactures. France, Germany, Czechoslovakia are caught in this second group. Imports last year were valued at about $45 millions.

The third batch—effective also Dec. 4—will help the British farmer, will play havoc with a lucrative business for Belgian, French, Dutch agriculturists. Americans are affected scarcely at all.

Protectionists admit $65 millions of luxury horticultural and off-season vegetable products came into Britain last year, but are disappointed that the first attempt to protect agriculture should cover only 2% of the country's food supply other than luxuries.

Likely to follow, and balm to the farmer, is the plan for a wheat quota—probably forcing British millers to use 15% domestic wheat in all flour.

Agricultural authorities estimate that English millers, until 1930, always filled

at least 15% of their wheat requirements at home. This year only 13% is estimated to be British-grown wheat.

Any wheat quota is likely to affect the United States which has always sold the bulk of its exports to Britain. Last year the United Kingdom took 14% of its wheat from the United States, this year only 10½%.

The London *Economist* in its current issue tabulates some interesting figures on the exporting countries affected by the new 50% duties. Germany, whose principal 1930 exports to Britain of goods now subjected to tariffs were valued at $30 millions, is by far the hardest hit. Germany is followed by France whose now-dutiable exports reached $18 millions. Sweden, Norway, and Finland as a group sent $16 millions of goods now protected by a tariff, with Sweden responsible for $10 millions. Following the United States with $14 millions, comes Belgium with $9½ millions, Holland, Czechoslovakia, and Italy with $3 millions each.

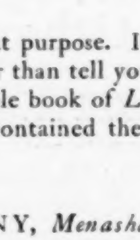
Radio Exports Boosted As World Listens In

CONTINENTAL Europe is passing out of the phonograph age into the radio age, and the Chinese are becoming radio-conscious because they have a lot of new domestic broadcasting stations. American radio exporters feel the effects.

More than twice as many radio sets were exported in the first 10 months of 1931 as in the same period in 1930.

There is no localization of the new markets. They spread over 22 countries in Europe, Asia, Africa, South America, and the South Pacific. Only 5 countries registered decreased imports of American radios: Italy, Canada, Mexico, Cuba, and Uruguay.

Exporters have not waited for the foreigner to make his own demand for radios. Washington lists 5 important reasons for the improvement in foreign radio markets: (1) the transition from the phonograph to the radio in Central Europe; (2) the race to beat new tariffs (Britain bought more than 5 times as many radios in this country in October this year compared with the same month in 1930, and November imports are expected to be even larger); (3) American manufacturers are able to undersell competitors; (4) improved broadcasting and new local stations in many countries, particularly China and Japan, have increased demand; (5) American manufacturers, due to home depression, have concentrated in foreign markets.



The Figures of the Week And What They Mean

Despite the low level of business activity, seasonal factors have operated as usual to further depress operations. . . . Railroad receiverships, weak stock and bond markets, sagging commodity prices, and reports of drastic income declines were not encouraging news. . . . Steel operations are fairly steady for the period. . . . Building activity is declining. . . . Electric power production was affected by the Thanksgiving Day observance. . . . Carloadings continue the usual decline. . . . The sole favorable decline was reported in currency circulation. . . . The *Business Week* index of general activity fluctuates at the low level of 66.1% of normal at the close of November compared with the revised figure of 65.9% the preceding week.

IN a period that is usually characterized by rapidly curtailed operations in the steel industry, the present stability is noteworthy. However, the low operating rate of 28% of capacity that has prevailed with small variations since July cannot give rise to much enthusiasm. A number of mills are reported to be increasing schedules from now through December to provide a little Xmas cheer for their employees. For the week ending Oct. 30, our adjusted index of steel production stands at 42% of normal compared with 43% the preceding week.

On the whole, the situation in the steel industry is essentially unchanged. The official report on November tonnage which is expected shortly may show a slightly better rate than the 27.8% of capacity average in October. For December, a slight recession may be in order unless the effect of inventory taking can be offset by the orders from the automobile industry which have been overhanging the market for several weeks, but which have come forth only in driblets.

Iron Age suggests that one of the factors which have been instrumental in delaying the placement of automotive steel has been the weakness of prices which has cropped up in recent weeks. Some of the declines on such products as plates, shapes and bars are merely a recognition of concessions which have prevailed and become more widespread. The situation has encouraged the holding off of automotive tonnage until liberal price concessions are made. Automobile body sheets have been shaded $2 a ton. The tonnage involved in the Ford business is expected to be a severe test of the market.

Automobile Production

Final official figures on automobile production in the U. S. and Canada during October show a total of 81,582 units against 143,212 in September, a decline of 43%. Registration of cars and trucks in the United States during the same month totaled 127,373 units, a 15.6% decline from the preceding month. This is the fourth consecutive month that domestic sales have exceeded production. The November estimate of automobile production in the U. S. and Canada reported by the National Automobile Chamber of Com-

	Latest Week	*Preceding Week*	*Year Ago*	*Five-Year Average 1926-1930*
THE BUSINESS WEEK INDEX OF GENERAL ACTIVITY	*66.1	†65.9	80.4	......
Production				
Steel Ingot Operation (% of capacity)	28	29	39	66
Building Contracts (F. W. Dodge, daily average in thousands, 4 weeks basis)	$8,134	$8,537	$11,397	$16,774
Bituminous Coal (daily average, 1,000 tons)	*1,177	†1,343	1,482	1,869
Electric Power (millions K.W.H.)	1,600	1,655	1,672	1,564
Trade				
Total Carloadings (daily average, 1,000 cars)	109	115	130	161
Miscellaneous and L.C.L. Carloadings (daily average, 1,000 cars)	74	77	87	100
Check Payments (outside N. Y. City, millions)	$3,414	$4,170	$4,520	$5,612
Money in Circulation (daily average, millions)	$5,486	$5,497	$4,580	$4,858
Prices (Average for the Week)				
Wheat (No. 2, hard winter, Kansas City, bu.)	$.54	$.58	$.70	$1.15
Cotton (middling, New York, lb.)	....	$.062	$.105	$.162
Iron and Steel (STEEL composite, ton)	$30.55	$30.63	$31.84	$35.51
Copper (electrolytic, f.o.b. refinery, lb.)	$.063	†$.062	$.108	$.143
All Commodities (Fisher's Index, 1926=100)	67.8	68.6	80.6	93.3
Finance				
Total Federal Reserve Credit Outstanding (daily average, millions)	$1,954	$1,995	$1,037	$1,425
Total Loans and Investments, Federal Reserve reporting member banks (millions)	$20,908	$21,002	$23,381	$21,912
Commercial Loans, Federal Reserve reporting member banks (millions)	$7,574	$7,553	$8,766	$9,046
Security Loans, Federal Reserve reporting member banks (millions)	$5,831	$5,889	$7,761	$6,977
Brokers' Loans, N. Y. Federal Reserve reporting member banks (millions)	$720	$751	$2,111	$3,411
Stock Prices (average 100 stocks, Herald-Tribune)	$96.45	†$99.00	$140.17	$150.57
Bond Prices (Dow, Jones, average 40 bonds)	$81.89	†$84.03	$95.04	$96.23
Interest Rates—Call Loans (daily average, renewal)	2.5%	2.5%	2%	4.6%
Interest Rates—Prime Commercial Paper (4-6 months)	3¾–4%	3¾–4%	2¾–3%	4.4%
Business Failures (Dun, number)	492	588	461	405

*Preliminary †Revised

The Index

The weekly index of general business activity, first of its kind, is compiled by *The Business Week* from 8 series of weekly figures—steel mill operations, building contracts, bituminous coal production, electric power output, non-bulk carloadings, check payments outside New York, commercial loans of reporting Federal Reserve member banks, and currency in circulation. It shows the current level of the average daily physical volume of business as compared with the normal for the season and the year. Normal, represented by 100, is what the current volume of general business activity should be if the usual seasonal changes and year-to-year growth had occurred. For further explanation see *The Business Week*, May 7, 1930, p. 39.

merce is placed at 65,562 units, a decline of 19.6% from October.

Building activity continues to give but slight support to the steel industry, with the bulk of orders public projects. The farm implement industry is not maintaining its recent buying gains. Tin plate production shows a slight increase, though contracting is being hampered by financial conditions of some canneries.

Building contracts awarded in the closing days of November will not be available for inclusion in this issue. Recent *Engineering News-Record* figures for heavy construction awards totaled about half of the peak week in Mid-November. Road work is conspicuous in what is ordinarily the off-season.

Bituminous coal production during the week of Nov. 21 continued to decline for the fourth consecutive week, bringing our index to 52% of normal compared with 58% the preceding week. Anthracite output declined even more severely during the week.

Power Production

The decline in electric power production is partly accounted for by the Thanksgiving Day holiday. The total for the week compared closely with the holiday weeks at the close of May and the beginning of July. If the usual seasonal expansion had occurred, the past week would have been substantially higher than holiday weeks earlier in the year. The adjusted index stands at 81% of normal compared with 82% the preceding week.

The year-end decline in carloadings continues. The week of Nov. 21 is the lowest of the past year with the exception of the first week ending Jan. 3. Comparing the cumulated totals of the major groups, it becomes apparent that shipments of raw materials such as ore, forest products, and coke suffered the sharpest declines. Grain and grain products suffered least, being only 9.8% behind the same period of 1930. Livestock is 10% behind, merchandise less than carlot 10.2%, coal 16.9%, and miscellaneous freight 21.5% behind the 1930 period. The average decline in all loadings is now 18.8%. The adjusted index based on miscellaneous and less than carlot freight for the week of Nov. 21 stands at 62% of normal against 63% the preceding week.

Bank Debits

After the sharp rise in bank debits a week ago, the latest week of Nov. 25 shows a partial loss of the gain. Our adjusted index based on the past 2 weeks rose from 69% to 73% of normal.

The decline in currency circulation during the week of Nov. 28 is encouraging and contrary to the usual seasonal trend. While a seasonal expansion of some $200,000,000 is customary as the Xmas holidays approach, there is more than sufficient money outstanding to handle this year's trade. The decline in circulation, therefore, appears to indicate a lessening of the hoarding evil and some improvement in the banking situation. The adjusted index is now 35% above normal against 37% above a week ago.

A slight expansion in commercial loans for the week of Nov. 25 lifted our adjusted index from 4% to 6% above normal. An upward trend at this period is contrary to seasonal expectations.

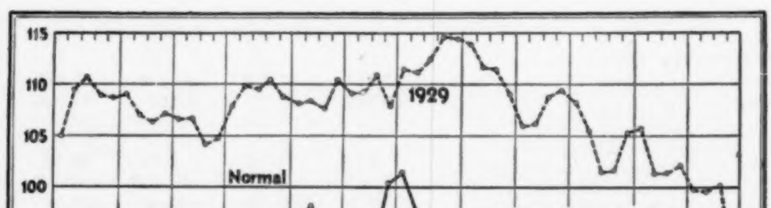
Commodity prices again show a tendency to sag, largely in sympathy with the stock and bond markets. The composite indexes of both Fisher and the National Fertilizer Association moved into lower ground. Grains weakened to mid-October levels though present levels of wheat and corn are still above the lows of early October. The most favorable aspect of the wheat situation lies in the cash markets. The Farm Board and millers are said to hold the bulk of the commercial supply in the United States. The movement of corn from Chicago to the Iowa corn belt is an unusual situation.

Cotton Prices

Cotton prices sagged with weak domestic mill demand. Rubber, cocoa, sugar, coffee, hides, and silk all displayed more or less weakness. Reports of trading in many commodities, notably silver, rubber, hides, raw silk, indicate substantial increases in volume compared with the preceding month of October.

The resumption of copper negotiations upon the acceptance of proposals for curtailment by Katanga strengthened prices and broadened tonnage sales. Lead prices were steady and sales fair. Tin declined to the lowest level since 1899. Zinc prices were unsettled. Tonnage sales gained.

The drop in commercial failures was due to the holiday period. The total for the week is still above the comparable week of 1930 and the average of holiday weeks of the past 5 years.



Trends of the Markets In Money, Stocks, Bonds

Steady contraction of credit continued through its second month. . . . American banking watches negotiations regarding Germany with great direct interest. . . . Currency movements are about seasonal. . . . Bonds and stocks decline to, or through, their depression lows on the accumulation of unfavorable factors.

Credit Liquidation Keeps Up Its Pace

CREDIT contraction continues after 2 months' progress. This steady reduction of the total loans and investments of banks has become probably the major factor in monetary affairs. Interest rates reflect it to a very slight extent.

This week continued the same trends that have prevailed in recent ones. The country keeps on gaining gold and reduction of Federal Reserve credit keeps on absorbing the gold gains and taking considerable slices out of the reserves of the member banks. Factors in our credit balance sheet other than these are of less significance at present. Currency expanded $32 millions this week—at about the seasonal rate after a less-than-seasonal expansion last week. Its net change in 5 weeks has been but $31 millions.

The steady decline of member bank reserves brings—or results from—a steady reduction in total loans and investments, which means also a steady reduction in bank deposits.

More simply put, this credit contraction means that bank loans are being steadily paid off and bank investments steadily sold. All lines of business participating are directly affected, for they are getting out of debt along with the individuals who are involved.

Brokers' loans dropped a further $31 millions this week reflecting the steady drop of security prices.

Member bank borrowing showed a rise, most of it probably due to the seasonal increase in the demand for currency. It now stands at the highest point of this year. This seasonal gain is a reflection of business' seasonal movement.

The negotiations regarding Germany which soon are to start are of great importance to the American banking system. American banks have a large amount of money on deposit and otherwise tied up in Germany; they also own a considerable amount of German bonds. An unfavorable outcome in Germany would affect them very unfavorably; a favorable one would avert danger, though would not necessarily be stimulating.

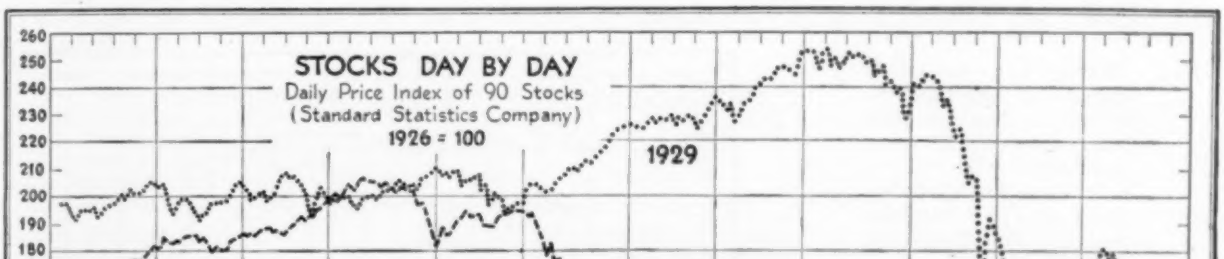
Foreign exchange movements were mixed this week, with further depreciation of most foreign currencies in terms of the dollar, bringing more gold to American shores.

Wide fluctuations in sterling exchange were spectacular, attested spectacularly to the uncertainties connected with irredeemable money. Fear of an increase in domestic money not backed by gold and seasonal pressure augmented by the rush of exports to avoid the British tariff were largely responsible for the large drop.

The Stock Market Is Facing a Critical Test

DECLINING prices reflect the increasing seriousness of some of the unfavorable factors long affecting stocks. Quotations are down about 10% from a week ago and, while the week's fluctuations looked somewhat professional, the volume of transactions rose slightly. The scope of the drop leaves little doubt that real liquidation is again under way. Even the Pollyanna antics of the press have subsided somewhat.

Railroad conditions stand out among the causes of the decline. The failure of the Wabash brought the first of several collapses which the financial community has come to expect—and was taken as confirmation of its fears. Numerous dividend cuts fed fuel to the fire and the investment trust selling which these necessitate is depressing specific issues. Declining bond prices with their concomitant difficulties to many institutions exert pressure on the market. Germany's increasingly acute condition is



directly reflected here. Behind all these "depressives" and greatest among them is the unfavorable earnings situation of American and world industry.

This is an extremely critical period for the stock market. The movement of prices from this point, approximately their low of the depression, will indicate the attitude and measure the ability of stockholders. If resistance is encountered and prices refuse to go through the lows the signal will be favorable. Otherwise, new and lower resistance points must be found and Wall Street knows that these are frequently well below the broken level. New necessitous liquidation is always uncovered on such a move.

Numerous factors in the offing will affect the market's move. The railroad labor meeting at Chicago probably will give a definite answer to the important question of wages, and another I.C.C. decision on the disposition of the rate case is awaited. President Hoover's message to Congress is being awaited eagerly, and the temper of Congress shortly will be revealed. German developments are expected at any time. Meanwhile, new rumors as to Stock Exchange action on short selling agitate the market.

Bond Lows Reflect Investors' Uncertainty

THE accumulation of unfavorable factors affecting stock prices also bears directly on bond prices, for in so completely abnormal a period as this both markets are moved alike. But the bond market has some discouragement of its own. Large numbers of new lows were recorded this week, especially in the railroad and utility groups.

Fixed interest-bearing obligations are now sharing the rap of earnings impairment which stock prices have been taking ever since the first crash in 1929. Dividends on stocks, which can be adjusted at will, have declined steadily since March, 1930. Interest payments are beginning to be affected and the financial community believes that much grief is yet to come. Liquidation forced by other factors adds pressure to the decline.

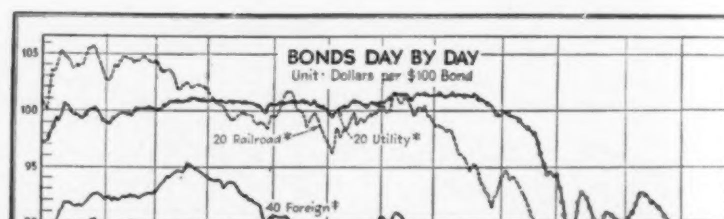
South American Defaults

A whole sheaf of South American issues were defaulted as to interest on Dec. 1 payment date. The list included Brazilian, Uruguayan and Colombian securities. In addition, 2 domestic bond issues were defaulted.

Banks and other institutional investors are steadily selling bonds. Some $200 millions have come off investments of weekly reporting member banks alone in the past month. And credit liquidation shows little sign of lessening.

The market awaits terms of the Treasury's Dec. 15 financing with interest but not encouragement. Total financing is expected to exceed $1 billion. About that amount of refinancing must be done and the Treasury may need some new money as well.

Since the action of bond prices has more effect on the condition of the financial institutions of the country than that of stock prices the decline in this market is causing serious concern.



Wide Reading

CONGRESS MEETS AGAIN. *World's Work,* December. Analysis of personalities who will dominate both the House and the Senate; of the legislation likely to come before Congress; of the probable trend of Congressional reaction.

A FIVE-YEAR PLAN FOR THE WORLD. Lewis L. Lorwin. *Survey Graphic,* December. Rational suggestions for long-term planning in contrast with temporary pain-killers.

THE POWER DOLLAR. *Power,* Nov. 24. Special issue devoted to cost control in power plants.

BRAZIL. *Fortune,* November. Business in northern Brazil. Yankee ventures in Brazil—including Ford's rubber plantation, Electric Bond & Share's utilities.

THE INDIAN MARKET. Harold N. Elterich. *Export Advertiser,* November. An analysis of the market in India with definite lists of advertising media, type of readers, rates. Special information on metropolitan centers.

BURNING THE LATIN AMERICAN CANDLE AT BOTH ENDS. George E. Anderson. *Magazine of Wall Street,* Nov. 28. Heavy interest obligations are stifling our export trade with Latin America. Shall the bondholder be favored at the expense of the exporter, or vice versa?

NEW HOUSES. Walter B. Pitkin. *Forum,* December. A new philosophy for a building boom, which will be free from the present excessive graft which surrounds the building trades.

BEAUTY FOR SALE. Thyra Samter Winslow. *New Republic,* Nov. 25. Beauty parlors are spreading their services to include surgery: major face-lifting, skinning. Prices run up to $500 for a lift. The beauty business is rapidly approaching the $1 billion class.

HOTELS' REFUSAL TO REDUCE RATES HURTS THEIR BUSINESS, AND OTHERS. Lawrence M. Hughes. *Sales Management,* Nov. 21. Arguments from executives who control a large number of traveling salesmen. The movement is gaining public, but not hotel, support.

THE STORY OF A QUALITY CONTROL PLAN IN THE RAYON INDUSTRY. John A. Spooner. *Executives Service Bulletin,* November. A cooperative program to protect manufacturer, retailer, and consumer through the formulation and maintenance of rigid standards.

BOOKS

THE PUBLIC PAYS. Ernest Gruening. Vanguard, 273 pp., $2.50. Exposé of propaganda of public utilities, especially power and light, as revealed through investigation by the Federal Trade Commission.

THE ADVERTISING APPROPRIATION. Albert E. Hasse. Harper, 181 pp., $3.50. How much to spend in advertising; where and when it should be spent; how the results can be measured.

THE SOVIET PLANNED ECONOMIC ORDER. William Henry Chamberlin. World Peace Foundation, 258 pp., $2.50. Russia's Five-Year Plan studied and interpreted, in retrospect and in prospect.

THE BUSINESS WEEK

The Journal of Business News and Interpretation

December 9, 1931

Toward Elasticity

To make the Reserve System more serviceable to American business, careful consideration must be given to the changed credit requirements of modern industry and trade and new ways in which they must be met. The System was established in response to an imperative demand for more elastic currency and commercial credit accommodation to meet changing seasonal and diverse geographical needs of business than was available under the earlier banking system, which depended upon individual and localized bank reserves. This was accomplished by pooling these reserves in the regional Reserve Banks and providing means of rediscount for certain assets—chiefly commercial paper—of the individual banks.

This was a great improvement; it served its purpose fairly well; prevented serious local and seasonal credit or currency stringencies so long as sufficient rediscountable assets were available and widely distributed among the member banks. But the war came along before it got a fair trial. The Reserve System was first drawn into financing the war needs of the government, then found itself unwillingly financing the prolonged speculative security market boom of the post-war period.

In the meantime the whole basis of business financing and therefore the character of member bank assets has changed. The commodity panic of 1921, which found business with enormous inventories carried by the banks on commercial credit, created in most concerns a deadly fear of bank indebtedness and a determination to "keep out of the banks" thereafter. Fortunately the bull market of 1922-29 enabled them to declare their independence by selling their securities to the public.

The net result is that the bigger businesses are no longer in debt to the banks to anything like the extent that they used to be, and probably will never be again. The principal bank debtors are now the smaller concerns who had no security market, the public that bought the securities by which business financed itself, and the federal, state, and local governments. The relative proportion of commercial paper in total bank assets has declined, and most of it is handled by the larger city banks.

The fundamental effect of this situation is to render the whole Reserve System less elastic and less liquid. It is useless to expect that it will cure itself by business reverting to wider use of commercial paper of kinds now rediscountable. This depression has only accentuated the business man's phobia about short-term bank loans. It has not cured the public of security buying. It will greatly increase the amount of bank credit involved in government financing. Corporations will maintain larger cash reserves; time deposits and long-term bank loans and investments will tend to increase; and business itself will use more intermediate or long-term credit, both for financing consumer sales by instalment paper, which has come to stay, and for financing more rapid obsolescence of equipment.

The rediscounting functions of the Reserve Banks as well as the member bank reserve requirements must sooner or later be adapted to these conditions if the credit needs of modern business are to be met. How, precisely, this is to be done is a difficult technical problem to which we do not presume to dictate the answer. We are confident that conscientious, open-minded consideration by Congress can find the answer. Nothing should be done which demonstrably endangers the stability or safety of the System or complicates its activities with functions for which it is not fitted, but it is equally important that nothing be left undone which might increase the service which the Reserve System is intended to render American business by providing more elastic credit resources for the country.

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